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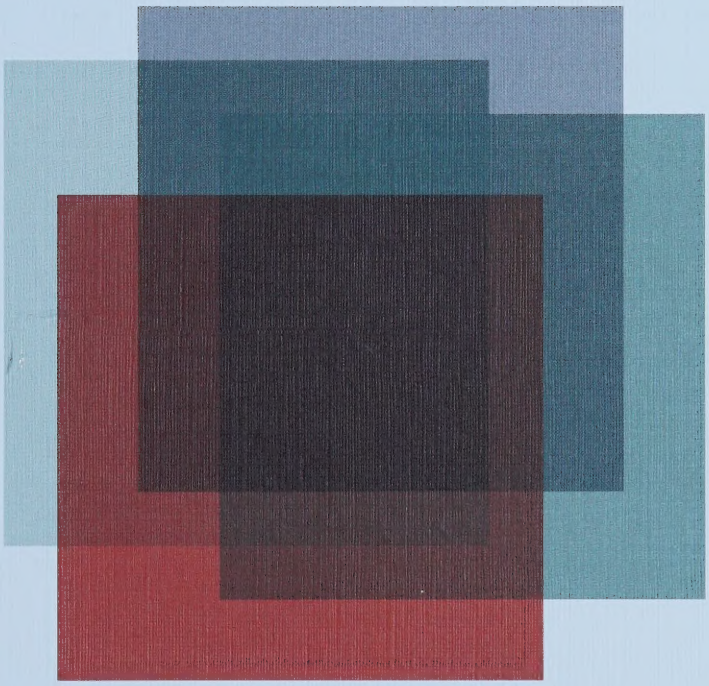
ZARGON

Zargon Energy Trust

2008 Annual Report



ZARGON AT A GLANCE

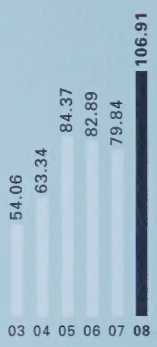
Zargon had a very good year in 2008, posting record levels of revenue, cash flow and earnings. In addition, two accretive corporate acquisitions were completed and successfully integrated. Zargon enters 2009 having a strong balance sheet and a large unrealized positive hedge position. In 2009, Zargon plans on capitalizing on this enviable position through accretive acquisitions and efficient capital programs during this year of opportunity.

2008

2008 Financial Highlights

- Revenue increased by 48 percent to $229.5 million.
- Funds flow from operating activities increased by 34 percent to $106.9 million.
- Funds flow from operating activities per diluted trust unit increased by 27 percent to $5.18.
- Net earnings increased by 178 percent to $68.3 million.
- Net earnings per diluted trust unit increased by 162 percent to $3.80.
- Bank debt increased by 36 percent to $77.6 million.
- Cash distributions increased by seven percent to $39.1 million.
- Cash distributions per trust unit remained constant at $2.16.
- Cash distributions represented 42 percent of the year's funds flow from operating activities on a per diluted trust unit basis (37 percent of the Trust's funds flow from operating activities).

Funds Flow from Operating Activities
($ millions)



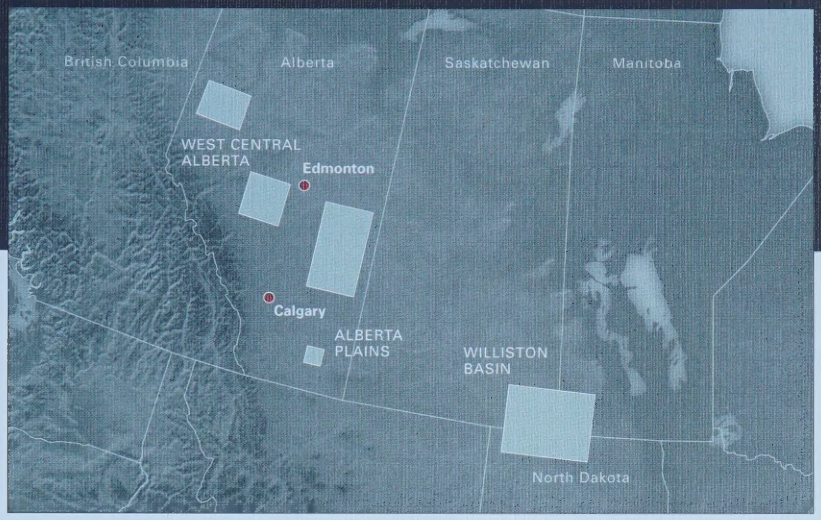
2008 Operating Highlights

- Net capital expenditures in 2008 increased 80 percent to $119.7 million, with $53.4 million allocated to field-related activities.
- Drilled a 35.9 net well program, with a 92 percent success rate, that delivered 14.5 net natural gas wells and 17.9 net oil wells.
- Production increased eight percent to 9,252 barrels of oil equivalent per day.
- Zargon's 2008 capital investment program replaced production by 168 percent (proved reserves) and 183 percent (proved and probable reserves).
- Proved and probable reserves increased 10 percent to 29.72 million barrels of oil equivalent. Proved and probable finding, development and acquisition ("FD&A") costs were $19.76 per barrel of oil equivalent (including the change in future development costs).

Production
(boe/d)

History of Value Creation and Returns

Throughout our fifteen-year history, Zargon has successfully focused on a value creation strategy as evidenced by having issued $81 million of equity for cash or property and including the February 2009 cash distribution, returning $167 million back to unitholders, while building a business entity with a market capitalization of approximately $279 million, as of the date of this report.



History of Stability

	2008	2007	2006	2005	2004
Proved and Probable (2P) Reserves (boe/unit)	**1.40**	1.36	1.41	1.41	1.39
Production (boe/d per million units)	**446**	436	437	445	447
Base Distribution ($/unit/month)	**0.180**	0.180	0.180	0.152	0.140
Debt to cash flow ratio (years)	**0.8**	0.8	0.5	0.3	0.4
Reserve life index (2P) (years)	**8.6**	8.4	9.0	8.5	8.4
Tax pools ($ millions)	**188**	148	113	90	79

Total Return Unit Price History

Operating in a trust format, Zargon has distributed $9.50 per trust unit since August 2004.

2008 Key Metrics

Zargon measures its progress in terms of the following six parameters.

PRODUCTION

Zargon's production averaged 446 barrels of oil equivalent per day per million trust units, an increase of two percent from last year's rate of 436 barrels of oil equivalent per day per million trust units.

RESERVES

Zargon's year end proved and probable reserves were 1.40 barrels of oil equivalent per total unit, a three percent increase from last year's reserves of 1.36 barrels of oil equivalent per total unit.

DISTRIBUTIONS

Cash distributions were $2.16 per trust unit, unchanged from the prior year's distribution per unit.

BALANCE SHEET QUALITY

Zargon's 2008 year end debt net of working capital (excluding unrealized risk management assets/liabilities and future income taxes) of $87.71 million represented a debt to funds flow ratio of approximately 0.8 years, consistent with the prior year's comparative level of 0.8 years.

ASSET QUALITY

Zargon's asset quality in terms of average crude gravity (30 degrees API), and natural gas/oil mix (53 percent natural gas production) showed a slight increase in oil weighting in 2008. The year end proved producing, proved total and proved and probable reserve life indices remained relatively unchanged at 5.7, 6.1 and 8.6 years, respectively.

TAX HORIZON

Zargon's tax pools increased in 2008 to a year end balance of approximately $188 million, compared to the 2007 year end balance of $148 million.

HIGHLIGHTS

	2008	2007	Percent Change
Financial			
Income and Investments ($ millions)			
Petroleum and natural gas revenue	**229.49**	155.51	48
Funds flow from operating activities	**106.91**	79.84	34
Cash flows from operating activities	**110.12**	76.30	44
Cash distributions	**39.09**	36.70	7
Net earnings	**68.29**	24.55	178
Net capital expenditures	**119.73**	66.67	80
Per Unit, Diluted			
Funds flow from operating activities ($/unit)	**5.18**	4.08	27
Cash flows from operating activities ($/unit)	**5.34**	3.90	37
Net earnings ($/unit)	**3.80**	1.45	162
Cash Distributions ($/trust unit)	**2.16**	2.16	–
Balance Sheet at Year End ($ millions)			
Property and equipment, net	**386.75**	313.95	23
Bank debt	**77.58**	56.87	36
Unitholders' equity	**222.54**	161.48	38
Total Units Outstanding at Year End (millions)	**21.15**	19.76	7
Operating			
Average Daily Production			
Oil and liquids (bbl/d)	**4,306**	3,675	17
Natural gas (mmcf/d)	**29.68**	29.31	1
Equivalent (boe/d)	**9,252**	8,560	8
Equivalent per million trust units (boe/d)	**446**	436	2
Average Selling Price (before the impact of financial risk management contracts)			
Oil and liquids ($/bbl)	**89.65**	64.71	39
Natural gas ($/mcf)	**8.12**	6.40	27
Proved and Probable Reserves at Year End			
Oil and liquids (mmbbl)	**17.81**	15.68	14
Natural gas (bcf)	**71.48**	67.36	6
Equivalent (mmboe)	**29.72**	26.91	10
Equivalent per total unit (boe)	**1.40**	1.36	3
Wells Drilled, Net	**35.9**	46.9	(23)
Undeveloped Land at Year End (thousand net acres)	**419**	362	16

Notes:

Throughout this report, the calculation of barrels of oil equivalent ("boe") is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil. For a further discussion about this term, refer to the Management's Discussion and Analysis.

For net capital expenditures, amounts include capital expenditures acquired for cash, equity issuances, acquisition costs and net debt assumed on corporate acquisitions.

Funds flow from operating activities is a non-GAAP term that represents net earnings and asset retirement expenditures except for non-cash items. Cash flows from operating activities differ from funds flow from operating activities as a result of changes in non-cash operating working capital. For a further discussion about this term, refer to the Management's Discussion and Analysis.

Total units outstanding include trust units plus exchangeable shares outstanding at year end. The exchangeable shares are converted at the exchange ratio at the end of the year.

Average daily production per million trust units is calculated using the weighted average number of units outstanding during the year, plus the weighted average number of exchangeable shares outstanding for the year converted at the average exchange ratio for the year.

PRESIDENT'S MESSAGE

Craig H. Hansen
President and
Chief Executive Officer

THE YEAR IN BRIEF

Zargon Energy Trust reported strong financial and operating results in 2008, its fourth full year of operations in a trust format. The year was highlighted by the successful completion and integration of the acquisitions of Rival Energy Ltd. and Newpact Energy Corp., and by improved efficiencies from our field capital programs.

For 2008, funds flow from operating activities were $106.91 million or $5.18 per diluted trust unit, a 27 percent increase over the prior year's $4.08 per diluted trust unit. During the year, the Trust distributed $39.09 million to unitholders ($2.16 per trust unit), which was equivalent to a payout ratio of 42 percent on a diluted trust unit basis or 37 percent of funds flow from operating activities (exchangeable shares do not receive distributions). Also, we are pleased to report that actions taken in 2008 to improve our capital efficiencies resulted in a total proved and probable finding, development and acquisition cost (including future development capital) of $19.76 per barrel of oil equivalent, a 26 percent reduction from 2007. All of these accomplishments were made without a significant increase in bank debt, thereby keeping Zargon in a strong financial position during this current period of weak commodity prices.

2008

2008 was a year of unprecedented commodity price volatility, significantly deteriorating world economic trends and weak financial markets. This environment has presented many challenges for the oil and gas industry and has resulted in low equity prices and reduced access to credit for many oil and gas entities. Although these events have caused a negative impact on our business, this difficult period sets the stage for the creation of new opportunities for those organizations that are well positioned to take advantage of the challenging phases of our industry's business cycle.

From many perspectives, 2008 was a very good year for Zargon, as we posted record levels of revenue, cash flow and earnings. In addition, we completed and successfully integrated two accretive corporate acquisitions. Also from an organizational perspective, Zargon made good progress meeting our objectives to develop capabilities and processes that enable the efficient execution of our business objectives. On the basis of our 2008 performance, we have entered 2009 in the enviable position of having a strong balance sheet with over $90 million of unutilized bank lines and more than $36 million of unrealized hedge gains. Additionally, we delivered positive production momentum in the year and have upgraded our technical capabilities at a time when we expect improved access to significant opportunities that fit our long term risk adjusted return objectives.

2009 AND BEYOND

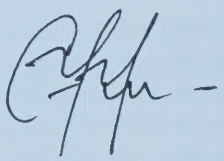
Going forward, Zargon remains committed to a partial cash flow distributing model as we believe it is an effective structure for an intermediate sized oil and gas producer in these relatively mature Western Canadian and Williston sedimentary basins. With the commitment to deliver regular cash distributions, the structure provides the economic tension that encourages efficient capital programs, as surplus cash flows need not be reinvested in capital programs, but can be efficiently returned to equity holders.

As we enter 2009, commodity prices are at cyclical lows, credit markets continue to be under stress and the world economic outlook is uncertain. For Zargon, our focus in 2009 will be to continue to improve our capital efficiencies by high-grading our field capital programs that provide an acceptable return in today's pricing environment. We will defer capital expenditures that only accelerate production and concentrate on the foundation capital expenditures that set up larger scope and longer term opportunities that can provide strong returns when commodity prices recover. We anticipate completing additional corporate and/or property acquisitions as our industry's challenges over the past two years have restricted capital access for many of our peers, which in turn, has significantly improved corporate and property acquisition metrics. With our continued strong financial position and our now expanded feedstock of opportunities coming from recent and anticipated acquisitions, Zargon is well positioned to create significant value through oil and natural gas exploration, development, exploitation and acquisition activities in 2009 and beyond.

In conclusion, 2009 could very well be another year of dramatic change, and depending on commodity prices, continued challenges for the oil and gas industry. At Zargon, we remain committed to executing our business strategy focused on returns and efficiencies that have proven successful over our fifteen-year history. We look forward to 2009 with a combination of trepidation and excitement. We recognize that the year will be a difficult one, but we fully expect that this challenging industry environment will permit us to capture significant resource opportunities that will yield meaningful returns in the future.

ACKNOWLEDGEMENTS

We are thankful for the commitment, skill and support of our staff as we continue to strive to efficiently execute our oil and natural gas business in order to enhance the long term value of Zargon. We also extend our gratitude to our Board of Directors for their valuable wisdom, advice and support. In particular, we thank John McCutcheon, who recently announced his retirement as a board member, for his many years of service since the founding of Zargon. Finally, on behalf of all employees and our Board, I would like to express our appreciation to our equity holders for their confidence and support for our unwavering commitment to value creation.



C.H. Hansen

President and Chief Executive Officer

March 9, 2009

MANAGEMENT TEAM

(BACK ROW, LEFT TO RIGHT)

AL D. THORSEN
Manager of Operations

TRACY L. HOWARD
Corporate Secretary

BRIAN G. KERGAN
Vice President, Corporate Development and Reserves

LORNE D. SCHWETZ
Vice President, Land

HENRY J. BAIRD
Vice President, Exploitation

BRENT C. HEAGY
Executive Vice President and Chief Financial Officer

JASON B. DRANCHUK
Controller and Treasurer

(FRONT ROW, LEFT TO RIGHT)

CRAIG H. HANSEN
President and Chief Executive Officer

MARK I. LAKE
Vice President, Exploration

DANIEL A. ROULSTON
Executive Vice President, Engineering

QUESTIONS

ZARGON'S LONG TERM VISION

What is Zargon's long term vision regarding its business and its structure?

- Zargon is first and foremost an oil and natural gas company working the traditional oil and natural gas business of exploring for, exploiting, developing and acquiring oil and natural gas assets in the Western Canadian and Williston sedimentary basins.
- Zargon has, and continues to embrace, a partial cash flow distributing model that implicitly encourages capital program efficiencies in these mature basins that are characterized by strong cash flows during high price periods, but only moderate returns from capital projects. By working in a trust structure, these cash distributions are transferred to our equity holders in a tax preferred manner. Post 2010, Zargon will seek to find a structure that will continue to allow us to effectively work our oil and natural gas business in a partial cash flow distributing model.

What are Zargon's long term business objectives?

- For Zargon, our fundamental objective has always been to create value for our equity holders. Throughout all business cycles, we seek to provide superior long term financial returns through the use of our organization's professional skills and industry knowledge, while protecting our equity holders' existing capital by incorporating fiscally conservative policies.
- We do not believe that we need to merge or bulk up our business to improve our cost of capital, as we believe that our investors are willing to support oil and natural gas entities that deliver value-added activities. We do, however, agree that there is a minimum trust or corporate size required to justify the growing public company/regulatory costs and we are targeting to reach the 12,000 barrels of oil equivalent per day level within the next two years, with further growth anticipated thereafter.

What are Zargon's long term commodity price expectations?

- Both oil and natural gas prices are very volatile and Zargon must ensure that it remains viable in low commodity price periods.
- In the long run, we believe that there continues to be a secular uptrend for oil and natural gas commodity prices due to the fundamental considerations of long term demand growth coming from the developing nations and the supply constraints coming from the natural production declines of the mature conventional oil and natural gas reservoirs.
- We recognize, however, that there can be a long hiatus in this secular uptrend due to specific economic events such as the current world credit crisis and related economic downturn. To reduce our risk to commodity price variations, we will continue to implement a twenty-four month hedging program for 20-30 percent of our working interest volumes when prices are acceptable. These hedges will help ensure that we can fund our upcoming capital programs and maintain our current distributions per trust unit.

- This positive long term pricing perspective encourages us to build long life oil and natural gas assets and emboldens us during this period of low commodity prices to capture oil and natural gas assets that bring significant resource potential which can be economically unlocked during periods of improved commodity pricing.

What are Zargon's core competencies?

- Oil Exploitation – Over the years, we have demonstrated a core competency in improving recovery factors and production volumes from existing oil reservoirs through waterfloods, horizontal wells and production optimizations. This competency is based on our fundamental understanding of fluid flows in oil reservoirs. Going forward, we wish to apply this understanding to reservoir projects of increased complexity, scale and scope.
- Natural Gas Exploitation – Over our history, we have also demonstrated a capability to develop gas reserves based on reservoir related and material balance considerations. In the future, we wish to continue to build and expand these understandings to develop natural gas resource opportunities that can be harvested in the future, when permitted by higher commodity prices and technology advances.
- Natural Gas Exploration – We have also demonstrated a core competency in discovering new natural gas reserves in the Alberta Plains core area and in selected properties of our West Central Alberta core area. Our exploration techniques rely heavily on detailed geology and seismic interpretations.
- Value Enhancing Acquisitions – In our earlier years, and now with our recent transactions, we have demonstrated an ability to acquire assets at reasonable prices, integrate these assets efficiently into our organization and create additional value through exploration and exploitation activities on these acquired assets.

THE CURRENT CHALLENGING BUSINESS ENVIRONMENT

Prices for oil and natural gas have recently declined dramatically; what is Zargon's response?

- With our view that the current very low commodity prices are not permanent but could last for multiple quarters, we conclude that we need to conserve our capital in order to survive a prolonged period of reduced cash flows.
- To that end, we have reduced our 2009 field capital programs from the original $50 million budget to a revised $37 million budget by deferring development and acceleration programs unless they are time sensitive or build long term strategic opportunities.
- On the other hand, we will continue to focus on activities that represent critical path elements pertaining to strategic technical information that can be used to advance further capital programs at a later date.
- As we are entering a period where acquisitions will be attractively priced, we will redirect the surplus funds from our field capital programs to acquisitions focused on reasonably priced resources that can be developed or exploited in the future.

What about the recent legislative, commodity price and financial market developments?

- On October 31, 2006, the Canadian Federal Government announced regulations that significantly reduced the tax advantages of trust structures commencing January 1, 2011.
- On October 25, 2007, the Alberta Government released a report titled "The New Royalty Framework" ("NRF"), which outlined substantially higher Alberta royalties that commenced January 1, 2009.
- These legislative developments were followed in calendar 2008 with unprecedented commodity price volatility, significantly deteriorating world economic trends and weak financial markets. The net effect of these developments has been very damaging to our industry in general and to the smaller public and private oil and natural gas producers in particular.
- Consequently, as we move forward, we foresee a dramatic reduction in the number of our competitors and as a result, an opportunity for significantly improved access and returns for the remaining participants in our business.
- With these industry developments, we have observed the following significant trends:
  - Improved values for oil and natural gas property and corporate acquisitions.
  - Lower Crown land sale costs and significantly improved access to farm-outs and joint venture opportunities.
  - Improved access to field services at substantially lower costs.

How is Zargon responding to these developments?

- Zargon is well positioned to take advantage of these opportunities and we will use our strong balance sheet and relatively strong equity price (compared to junior and private oil and gas companies) to acquire assets in accretive corporate or property transactions that bring exploitable properties and/or additional tax pools.
- Specifically, we will seek to acquire exploitable oil properties that bring:
  - Waterflood and horizontal drilling exploitation or production optimization opportunities focused on increasing reservoir recovery factors.
  - Significant long term potential, although the transactions may not initially appear accretive on a cash flow or production basis.
- We will also seek to acquire Alberta natural gas properties that bring:
  - Exploitation, exploration or resource potential.
  - Lower production decline rates.

ZARGON'S DISTRIBUTION POLICY

As we move to the post 2010 trust tax legislation implementation, will Zargon need to modify its distribution policy?

- Post 2010, Zargon will seek a structure that permits us to continue to practice our oil and natural gas exploration, exploitation, development and acquisition business within a partial cash flow distributing model. We anticipate that distribution percentages (but not necessarily distributions per unit) will decline from historical levels in order to access the tax sheltering benefits of field capital expenditures.
- As we move to a lower distribution percentage (say in the 35 percent range over a full business cycle) we will seek to augment our distributions with a modest level of growth on a trust unit basis. To Zargon, this growth is defined as increasing reserves and production on a per unit basis. These growth targets must be debt adjusted and cannot come with the deterioration of the quality or character of our assets.
- The rate of growth necessary to meet targets will depend on our distribution percentages. At a minimum, we would seek to deliver a total return in excess of 10 percent per year. This return would be defined as the summation of the annual growth percentage and the distribution percentage calculated as a yield on our net property and equipment assets. We believe that this business model, over the long term, can deliver sufficient compounded returns to warrant premium equity valuations that, in turn, would provide a cost of capital advantage for further expansions.

What is the impact of this policy on Zargon's short term distributions?

- Zargon will be slow to implement upward or downward adjustments to the current monthly distribution level of $0.18 per unit. For instance, in the first half of 2008 when commodity prices and Zargon cash flows increased dramatically, we refrained from increasing our distribution as we reduced debt and allowed the distribution percentage to drop towards the post 2010 target 35 percent level.
- By following a conservative business strategy that maintains a strong balance sheet and employs a forward hedging program, we have been able to continue our capital programs and our distributions in this current period of reduced cash flows resulting from depressed commodity prices.
- However, ultimately our most important consideration is the protection of our equity holders' existing capital by incorporating fiscally conservative policies. Consequently, we will reduce distributions when balance sheet considerations necessitate distribution cuts or if we can clearly demonstrate that the transfer of funds from distributions to our acquisition or field capital programs will provide substantially improved returns.

CORE AREAS

Zargon's activities are focused in three distinct core areas. The Williston Basin and the Alberta Plains core areas both provide the foundation for Zargon's oil exploitation business. The Alberta Plains and West Central Alberta core areas provide the base for Zargon's natural gas exploration and development businesses. Each of these businesses, while having common elements, also have distinct characteristics.

OIL EXPLOITATION BUSINESS

Zargon's oil business is built on the exploitation of long-life oil properties that are characterized by large under-exploited volumes of oil-in-place. Zargon's oil properties are primarily located in the Williston Basin core area of southeastern Saskatchewan, southwestern Manitoba and immediately across the border in the northern counties of North Dakota. In recent years, Zargon's oil exploitation activities have expanded into the Alberta Plains core area with Taber exploitation drilling successes and with the January 2008 acquisition of the Rival Bellshill Lake property. Also, with the acquisition of the St. Anne and Morinville properties from the Newpact and Rival acquisitions, the West Central Alberta area provides some oil exploitation opportunities. The Trust utilizes reservoir engineering, three-dimensional ("3D") seismic, horizontal drilling and detailed geological mapping to identify opportunities to increase daily production volumes and to maximize the ultimate oil recoveries from this large oil-in-place resource base. The oil exploitation initiatives frequently include the implementation or modification of waterflood projects.

NATURAL GAS EXPLORATION AND DEVELOPMENT BUSINESS

Zargon's natural gas exploration and development activities are concentrated in two core areas:

- The Alberta Plains core area consists of generally mature natural gas producing properties and provides the majority of the Trust's natural gas production and reserves. This existing production is predominantly operated with high working interest and produced into Zargon owned production infrastructure. This core area provides both seismically defined Mannville exploration prospects that are characterized by strong productivity but moderate reserves, and shallow decline natural gas (Viking and Mannville) down-spacing and commingling development projects that provide lower initial rates but longer reserve life indices.
- The West Central Alberta core area properties are more exploratory in nature and are located in three regions where Zargon has accumulated a considerable undeveloped land position. Capital costs for the West Central Alberta exploration wells tend to be much higher than the Alberta Plains wells, and in some circumstances, the natural gas reserves and production rates can be significant.

Zargon's natural gas exploration activities are based on geophysical and geological analysis to identify and pursue drilling opportunities on the Trust's substantial inventory of undeveloped lands. The natural gas development activities are based on lower production and more regional projects at the Jarrow, Hamilton Lake and Pembina properties and are developed when acceptable returns are available. These returns are dependent on both the commodity price and the capital cost of the development programs. Zargon's undeveloped lands are situated in large concentrated blocks and, for the most part, are accessible for all-season operations.

2008 CORE AREA STATISTICAL SUMMARY

	Alberta Plains	West Central Alberta	Williston Basin	Total
Production (boe/d)	4,480	1,939	2,833	9,252
Production growth/(decline) (percent)	15	17	(5)	8
Proved and probable reserves (mboe) [1]	11,517	5,326	12,878	29,721
Annual reserve growth/(decline) (percent)	18	37	3	10
Undeveloped land (thousand net acres)	197.1	159.1	62.9	419.1
Undeveloped land growth/(decline) (percent)	54	(3)	(8)	16
Core area cash flow ($ millions) [2]	60.88	23.40	58.05	142.33
Core area cash flow ($/boe)	37.13	32.97	55.98	42.03
Capital program ($ millions)	65.99	39.58	13.82	119.39
Drilling program (net wells)	21.8	6.7	7.4	35.9
Three-year FD&A costs ($/boe) [3]	20.64	24.19	19.84	21.35
Three-year core area recycle ratio [4]	1.80	1.36	2.82	1.97

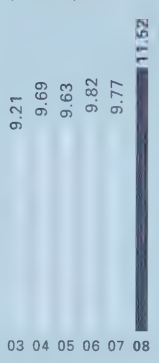
Notes:

1. *Proved and probable reserves are trust working interest reserves before royalties (6:1).*
2. *The summation of the 2008 core area cash flows are $142.33 million, which compares to the Trust's 2008 funds flow from operating activities of $106.91 million. The term "core area cash flow" is defined as petroleum and natural gas revenue for a core area, net of royalties and production expenses. The term "funds flow from operating activities" is defined in the Management's Discussion and Analysis. The difference between the summation of the core area cash flows and the funds flow from operating activities is comprised of the corporate charges including general and administrative expenses, interest and financing costs, realized risk management gains/losses, corporate taxes and asset retirement expenditures.*
3. *The reported proved and probable finding, development and acquisition ("FD&A") costs include an allowance for the change in future capital expenditures. This calculation also includes allowances for prior year reserve revisions.*
4. *Three-year core area recycle ratio is defined as the 2008 core area cash flow per barrel of oil equivalent divided by the three-year proved and probable finding, development and acquisition costs per barrel of oil equivalent.*

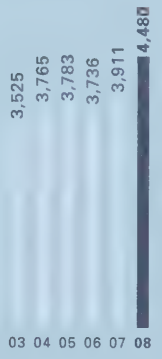
ALBERTA PLAINS

The Trust's Alberta Plains core area is located in the east central and southeastern regions of Alberta and is characterized by relatively shallow wells and all-season surface access. This core area delivered 65 percent of Zargon's total natural gas production and 29 percent of the oil and liquids production in 2008.

Proved and Probable Reserves
(mmboe)



Production
(boe/d)



2009 ALBERTA PLAINS KEY INITIATIVES

- Proceed with a reduced capital program that emphasizes oil exploitation along with high-graded natural gas exploration.
- Continue development, exploitation and field optimization activities at the Bellshill Lake oil property.
- Continue development of the Taber oil property through horizontal drilling and waterflood modifications.
- Continue exploration for high-graded natural gas Mannville targets at the Jarrow property.
- Defer gas-in-place development programs until improved economic returns can be realized.
- Efficiently execute a $14 million capital program that includes the drilling of approximately 11 net wells at the Jarrow, Bellshill and Taber properties.

Alberta Plains

	2008	2007	2006	2005	2004
Average Production					
Oil and liquids (bbl/d)	**1,255**	563	520	553	595
Natural gas (mmcf/d)	**19.35**	20.09	19.29	19.38	19.02
Equivalents (boe/d)	**4,480**	3,911	3,736	3,783	3,765
Total Proved & Probable Reserves [1]					
Oil and liquids (mbbl)	**4,076**	2,321	2,079	1,962	1,932
Natural gas (bcf)	**44.64**	44.67	46.44	46.00	46.57
Equivalents (mboe)	**11,517**	9,766	9,818	9,625	9,694
Undeveloped Lands					
Net acres (thousands)	**197.1**	128.3	120.5	120.5	146.0
Drilling Activities					
Net wells	**21.8**	32.1	39.5	25.1	21.4
Core Area Cash Flow ($ millions)	**60.88**	34.87	38.23	45.68	32.71
Capital Expenditures ($ millions)					
Net property and corporate acquisitions	**43.02**	0.48	0.79	0.03	0.60
Undeveloped land, seismic and geological	**6.55**	5.58	3.12	2.41	3.09
Drilling and completions	**9.97**	14.44	12.88	11.08	7.66
Equipping and facilities	**6.45**	9.83	6.16	5.55	3.22
Total expenditures	**65.99**	30.33	22.95	19.07	14.57
Capital Program Efficiencies					
Finding, development and acquisition costs ($/boe) [2]	**20.55**	23.80	18.03	14.36	7.56

Notes:

1. *Proved and probable reserves are trust working interest reserves before royalties (6:1).*
2. *The reported proved and probable finding, development and acquisition ("FD&A") costs include an allowance for the change in future capital expenditures. This calculation also includes allowances for prior year reserve revisions.*

The Alberta Plains core area provides substantial cash flows that support the Trust's distributions and also funds the Trust's reinvestment programs required to maintain stable production volumes and reserves. The area brings a large gas prospective undeveloped land inventory at Jarrow and Hamilton Lake and now with the Bellshill and Taber properties, a substantial inventory of oil exploitation opportunities.

The Trust's Alberta Plains core area is located in the east central and southeastern regions of Alberta and is characterized by relatively shallow wells and all-season surface access. This core area delivered 65 percent of Zargon's total natural gas production and 29 percent of the oil and liquids production in 2008.

The Alberta Plains production volumes have been maintained at a relatively stable level since 2001 through exploration and development drilling programs on the Trust's land base. Typically, these capital programs have been funded from about 50 percent of the core area's property cash flow. In 2008, the Alberta Plains core area generated $60.88 million of property cash flow, of which $22.97 million (excluding net property and corporate acquisitions) or 38 percent of the property cash flow was reinvested in field activities in the core area. In 2008, the core area's capital programs were augmented by $43.02 million pertaining to the Rival and Newpact corporate acquisitions, taking the total capital program to $65.99 million or 108 percent of the core area's cash flow. With this expanded capital program, Zargon increased the core area's production volumes by 15 percent and increased the core area's proved and probable reserves by 18 percent. During 2008, the Alberta Plains total capital programs (including acquisitions) provided proved and probable reserve additions at a cost of $20.55 per barrel of oil equivalent.

Going forward, Zargon has a substantial inventory of Alberta Plains opportunities that provide a base level of field activity that can be accelerated when improved commodity prices warrant. These opportunities include oil exploitation, natural gas exploration and natural gas development in the following key properties:

JARROW

The Jarrow property continues to be the Trust's most significant producing natural gas property. At this property, Zargon produced 14.63 million cubic feet of natural gas per day and 68 barrels of oil and liquids per day in 2008, primarily from the Mannville and Viking formations. This property is characterized by high working interests, ownership and operatorship of significant pipeline and gas processing facilities and a large inventory of prospects on a 129 thousand net acre undeveloped land inventory. At December 31, 2008, the Jarrow undeveloped land inventory increased 19 percent over the prior year. This increase is primarily attributable to Crown acquisitions during a year of reduced industry competition for land.

During 2008, Zargon drilled 12.8 net (14 gross) wells at Jarrow, resulting in 9.8 net natural gas wells, 2.0 net oil wells and 1.0 net dry hole. The Trust also shot 181 kilometres of two-dimensional ("2D") seismic as part of its ongoing exploration and development programs.

In 2009, similar to the 2008 program, Zargon will focus mainly on seismically based Mannville exploration in Jarrow, with the drilling of eight net wells that are mostly located in the western and southern portions of the property.

BELLSHILL LAKE

The Bellshill Lake oil property is located immediately south of Jarrow and was acquired as part of the acquisition of Rival Energy Ltd., which closed on January 23, 2008. This property provides significant oil development drilling, exploitation drilling and production optimization opportunities from existing wells. In 2008, the Bellshill property produced approximately 543 barrels per day of 27 degree API oil and 0.20 million cubic feet of natural gas per day to the Zargon acquired interest.

During 2008, Zargon drilled 10.0 net (10 gross) wells at the Bellshill Lake property on step-out or infill exploitation projects, resulting in nine net oil wells and one net dry hole. These wells, which were mostly drilled in the 2008 fourth quarter, will provide incremental production volumes in 2009.

For 2009, Zargon is budgeting a two net well drilling program along with multiple optimization and workover activities scheduled for existing wells. The property has significant infill potential and additional exploitation wells can be initiated if higher oil prices are realized during the year.

TABER

The Taber oil property (20 degree API) is a large oil-in-place property that brings significant future exploitation potential in terms of horizontal development wells and waterflood modifications and implementations. In 2008, this property produced 553 barrels of oil and liquids per day and 0.50 million cubic feet of natural gas per day, a 10 percent gain from the prior year's rates. In 2008, Zargon drilled one net horizontal oil well and is planning on drilling an additional one net horizontal well in 2009.

HAMILTON LAKE

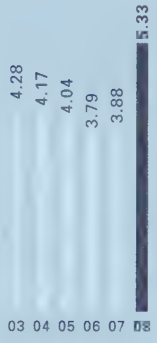
The Hamilton Lake property produced 2.97 million cubic feet of natural gas per day and 75 barrels of oil and liquids per day in 2008 (a seven percent decline from 2007 levels) from the Mannville and Viking formations. The property's key asset is a 48 thousand net acre unit that has significant development potential in the lower permeability but extensive first Viking sand formation.

In 2008, Zargon did not undertake any drilling at Hamilton Lake as the available development projects did not provide an acceptable rate of return at the current commodity prices. At this time, Zargon is not planning any 2009 development drilling at Hamilton Lake until higher natural gas prices and/or reduced costs permit improved economic returns.

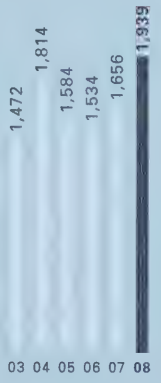
WEST CENTRAL ALBERTA

Zargon's West Central Alberta core area is located northwest of Edmonton in central Alberta and is comprised of three natural gas producing regions that provide the Trust with a varied inventory of natural gas exploration and development opportunities. This core area currently delivers approximately 33 percent of Zargon's natural gas production.

Proved and Probable Reserves *(mmboe)*



Production *(boe/d)*



2009 WEST CENTRAL ALBERTA KEY INITIATIVES

- Proceed with a reduced capital program that focuses on the 2008 exploration successes at Highvale and at Kakut, in the Peace River Arch.
- Continue with joint exploration or farm-out of selected Peace River Arch properties.
- Maintain the Pembina asset base with sustaining capital.
- Efficiently execute a $9 million capital program that includes the drilling of approximately six net wells.

West Central Alberta

	2008	2007	2006	2005	2004
Average Production					
Oil and liquids (bbl/d)	**297**	166	168	209	218
Natural gas (mmcf/d)	**9.86**	8.94	8.19	8.25	9.56
Equivalents (boe/d)	**1,939**	1,656	1,534	1,584	1,814
Total Proved & Probable Reserves [1]					
Oil and liquids (mbbl)	**1,237**	530	406	455	499
Natural gas (bcf)	**24.53**	20.09	20.27	21.49	22.00
Equivalents (mboe)	**5,326**	3,879	3,785	4,036	4,166
Undeveloped Lands					
Net acres (thousands)	**159.1**	164.6	202.2	197.7	184.9
Drilling Activities					
Net wells	**6.7**	6.2	14.7	14.1	20.6
Core Area Cash Flow ($ millions)	**23.40**	13.70	13.41	18.57	16.16
Capital Expenditures ($ millions)					
Net property and corporate acquisitions/(dispositions)	**22.90**	0.90	(0.80)	0.13	0.40
Undeveloped land, seismic and geological	**4.37**	4.44	2.68	3.20	4.77
Drilling and completions	**8.16**	7.85	11.64	9.74	14.62
Equipping and facilities	**4.15**	4.82	4.77	2.70	2.33
Total expenditures	**39.58**	18.01	18.29	15.77	22.12
Capital Program Efficiencies					
Finding, development and acquisition costs ($/boe) [2]	**19.39**	23.50	59.19	38.23	40.95

Notes:

1. *Proved and probable reserves are trust working interest reserves before royalties (6:1).*
2. *The reported proved and probable finding, development and acquisition ("FD&A") costs include an allowance for the change in future capital expenditures. This calculation also includes allowances for prior year reserve revisions.*

Zargon's West Central Alberta core area is located northwest of Edmonton in central Alberta and is comprised of three natural gas producing regions that provide the Trust with a varied inventory of natural gas exploration and development opportunities. This core area currently delivers approximately 33 percent of Zargon's natural gas production and, with exploration success, can provide Zargon the opportunity to grow its natural gas production volumes. In 2008, Zargon spent $16.68 million of capital (excluding net property and corporate acquisitions) in the West Central Alberta core area, which represented 71 percent of the $23.40 million of property cash flow generated by this area. With these expenditures, Zargon drilled 6.7 net wells that resulted in 3.7 net natural gas wells, two net oil wells and one net dry hole.

In 2008, the core area's capital programs were augmented by $19.89 million of capital pertaining to the Rival and Newpact corporate acquisitions, taking the total capital program to $39.58 million or 169 percent of the core area's cash flow. With this expanded capital program, Zargon increased the core area's production by 17 percent to 1,939 barrels of oil equivalent per day and the core area's proved and probable reserves by 37 percent to 5.33 million barrels of oil equivalent.

With a refocused field program in 2008, Zargon was able to continue this core area's improving trend of capital efficiencies by delivering improved finding and development costs of $19.39 per barrel of oil equivalent (including acquisitions). Specifically, gas well tie-ins at Pembina and the Peace River Arch, augmented by newly acquired properties at St. Anne and Morinville, in the greater Highvale area, provided the majority of the production gains, while exploration successes at Highvale and Kakut provided a substantial amount of the reserve additions.

During this current low commodity price environment, Zargon will focus primarily on following up the 2008 exploration successes with oil exploitation wells at Highvale and gas development wells at Kakut on the Peace River Arch. Additional sustaining capital will also be spent on each of the three West Central Alberta key properties:

GREATER HIGHVALE

Zargon's 32 thousand net acres of undeveloped land in the Greater Highvale property is located approximately 70 kilometres west of the city of Edmonton. Zargon owns and operates natural gas production infrastructure in the area and has historically pursued seismically defined structural and stratigraphic prospects at medium depths. With the addition of the Morinville property from the Rival acquisition and the St. Anne property from the Newpact acquisition, further opportunities exist for oil exploitation in this area. In 2008, Zargon drilled two net oil wells in this area. Production for the Greater Highvale area was essentially unchanged from 2007 and averaged 2.45 million cubic feet per day of natural gas and 89 barrels per day of oil and liquids.

Although a quiet year in terms of drilling, the year was highlighted by the acquisition of oil exploitation properties at St. Anne and Morinville, and by a significant Banff gassy-oil exploration success at Highvale. The Highvale success will be followed up by two net step-out locations in 2009, which could lead to a multi-well oil development program in 2010.

PEACE RIVER ARCH

In the Peace River Arch exploration area, Zargon is pursuing multi-zone gas exploration prospects at drilling depths ranging up to 2,100 metres. The Peace River Arch exploration strategy is more "grassroots" than in other areas as the Trust posts land, shoots seismic and drills high-graded prospects. Zargon has 63 thousand net acres of undeveloped land inventory that is generally characterized by year round surface access and mostly sweet natural gas multi-zone prospects.

In 2008, the Trust drilled 4.7 net wells in the Peace River Arch area that resulted in 3.7 net natural gas wells and one net abandonment. Based on the tie-in activities relating to prior year successes, Zargon's Peace River Arch production increased by 23 percent in the year to 4.13 million cubic feet per day of natural gas and 65 barrels per day of oil and liquids. In 2009, Zargon is budgeting a reduced capital program of three net wells, relating primarily to 2008 successful exploration activities at the Kakut, Rycroft and Spirit River properties. In particular, we are pleased with the Kakut Doig sand natural gas discovery as further delineation drilling in 2009 may lead to a number of development wells in 2010.

PEMBINA SHALLOW GAS

Historically, Zargon has been pursuing the exploration and development of shallow under-pressured Scollard and Horseshoe Canyon natural gas sands in the Pembina area at depths up to 900 metres. Zargon has an inventory of 50 thousand net acres of undeveloped land on this prospect. For 2008, the property provided 2.54 million cubic feet per day of natural gas and 65 barrels per day of oil and liquids production to Zargon's interest, an 11 percent decrease from the prior year levels. Zargon did not drill any wells at Pembina in 2008, but did undertake a small property acquisition, two recompletions and the tie-in of three net wells.

Zargon is planning a quiet year in 2009 at the Pembina property with only one net well budgeted. Additional sustaining capital will be allocated to tie-ins, completions, facility modifications and land acquisitions. These expenditures will be focused on improving the long term viability of this property, which continues to hold considerable resource potential in a higher commodity price environment.

WILLISTON BASIN

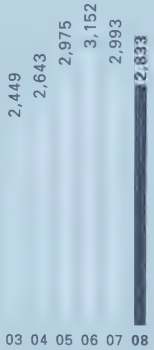
The Williston Basin core area is characterized by a stable oil production base that offers significant long term exploitation opportunities. The Williston Basin properties are located within relatively close proximity in southeast Saskatchewan, southwest Manitoba and in three northern counties of the State of North Dakota.

Proved and Probable Reserves *(mmboe)*

2009 WILLISTON BASIN KEY INITIATIVES

- Proceed with a stable capital program that focuses on the exploitation of our significant Williston Basin oil-in-place resource base.
- Continue with the seismically defined development of the Steelman Frobisher property.
- Continue with the exploitation of the Pinto Midale waterflood and the Frys (Fertile) Bakken pools.
- Efficiently execute a $14 million capital program, which includes the drilling of approximately seven net (mostly horizontal) wells.

Production *(boe/d)*



Williston Basin

	2008	2007	2006	2005	2004
Average Production					
Oil and liquids (bbl/d)	**2,754**	2,946	3,117	2,935	2,603
Natural gas (mmcf/d)	**0.47**	0.28	0.22	0.24	0.26
Equivalents (boe/d)	**2,833**	2,993	3,152	2,975	2,643
Total Proved & Probable Reserves [1]					
Oil and liquids (mbbl)	**12,494**	12,829	13,452	12,942	11,930
Natural gas (bcf)	**2.31**	2.59	2.45	1.01	0.98
Equivalents (mboe)	**12,878**	13,262	13,861	13,110	12,093
Undeveloped Lands					
Net acres (thousands)	**62.9**	68.7	58.6	48.6	45.1
Drilling Activities					
Net wells	**7.4**	8.6	22.0	14.3	7.5
Core Area Cash Flow ($ millions)	**58.05**	41.57	42.55	37.12	25.37
Capital Expenditures ($ millions)					
Net property and corporate acquisitions/(dispositions)	**0.12**	0.47	(3.14)	2.26	10.82
Undeveloped land, seismic and geological	**1.65**	1.89	2.80	1.51	1.24
Drilling and completions	**9.54**	10.86	17.28	12.54	4.91
Equipping and facilities	**2.51**	3.84	5.19	3.53	2.61
Total expenditures	**13.82**	17.06	22.13	19.84	19.58
Capital Program Efficiencies					
Finding, development and acquisition costs ($/boe) [2]	**16.86**	38.58	15.99	8.78	11.76

Notes:

1. *Proved and probable reserves are trust working interest reserves before royalties (6:1).*
2. *The reported proved and probable finding, development and acquisition ("FD&A") costs include an allowance for the change in future capital expenditures. This calculation also includes allowances for prior year reserve revisions.*

The Williston Basin core area is characterized by a stable oil production base that offers significant long term exploitation opportunities. The Williston Basin properties are located within relatively close proximity in southeast Saskatchewan, southwest Manitoba and in three northern counties of North Dakota. The properties produce light and medium gravity oil from carbonate reservoirs at depths up to 1,500 metres. In 2008, the Williston Basin contributed 64 percent of the Trust's oil and liquids production, 70 percent of the Trust's proved and probable oil and liquids reserves and provides a long proved and probable reserve life of 12.4 years.

The majority of Zargon's Williston Basin producing reservoirs are characterized by moderate permeability and a large remaining oil-in-place. By the nature of the physical characteristics of these reservoirs, the wells demonstrate relatively stable production with shallow annual production declines and, accordingly, long reserve life indices.

Through exploitation projects, Zargon attempts to find methods to increase oil recoveries from these reservoirs. Generally, Zargon uses a combination of exploitation techniques including pressure maintenance by water injection, 3D seismic and horizontal drilling to unlock additional oil reserves. Frequently, optimizing pressure support in the oil reservoir by water injection is the first step in the exploitation process. With pressure support established, Zargon seeks to characterize the reservoirs through 3D seismic analysis and interpretation, which is followed by horizontal wells designed to increase recoveries and accelerate production.

In 2008, Zargon drilled 3.9 net horizontal wells and 3.5 net vertical wells in the Williston Basin, resulting in 6.9 net oil wells and 0.5 net water injection wells. The Trust also shot a 10.4 square kilometre 3D seismic program at Elswick, Saskatchewan. The 2008 exploitation drilling program included 2.0 net wells at Steelman, 1.9 net wells at Elswick and 2.0 net wells at Frys (Fertile). The highlight of the year's results were at Steelman where successful Frobisher horizontal wells drilled on two underexploited structural ridges have set up a three net well drilling program in 2009 with further development locations scheduled for 2010.

In 2008, the Williston Basin area generated $58.05 million of property cash flow, of which $13.82 million, or 24 percent, was reinvested in the core area. Reflecting this reduced 2008 reinvestment rate, the Williston Basin production volumes declined five percent to 2,833 barrels of oil equivalent per day in 2008. The reduced capital program also impacted the Williston Basin reserves, which showed a three percent decrease in the year end proved and probable reserves to 12.88 million barrels of oil equivalent. However, this modest Williston Basin capital program focused solely on high-graded oil exploitation opportunities and delivered substantially improved proved and probable reserve finding and development costs of $16.86 per barrel of oil equivalent, a 56 percent reduction from the previous year.

Looking forward, we continue to be very optimistic about the outlook for the Williston Basin core area. With approximately 200 million barrels of working interest original oil-in-place as a resource feedstock, Zargon has a large exploitation inventory encompassing 20 projects that, through a combination of waterflood implementations and modifications, should provide stable or growing core area production volumes for many years to come.

Brent C. Heagy
Executive Vice President
and Chief Financial Officer

HIGHLIGHTS

Zargon had an active year in 2008, spending $119.73 million (including administrative assets) on capital programs that included the drilling of 35.9 net wells, the corporate acquisitions of Rival Energy Ltd. ("Rival") and Newpact Energy Corp. ("Newpact"), the acquisition of 62 thousand net acres of Crown undeveloped land, the shooting of 199 kilometres of 2D seismic, the construction of 24 net kilometres of pipelines, the tie-in of 29.0 net wells and the conclusion of four small property transactions. In addition to supporting Zargon's $2.16 per trust unit distributions, these capital expenditures provided an eight percent gain in average daily production volumes and a 10 percent increase in proved and probable reserves.

	2008	2007	Percent Change
Total net capital expenditures ($ millions)	**119.73**	66.67	80
Undeveloped land (thousand net acres)	**419**	362	16
Wells drilled, net	**35.9**	46.9	(23)
Total production (boe/d)	**9,252**	8,560	8
Year end proved and probable reserves (mmboe)	**29.72**	26.91	10

LAND AND SEISMIC

In 2008, Zargon spent $8.14 million (including capitalized lease rentals on non-producing properties) on replenishing its undeveloped land base. This total was nine percent higher than the $7.49 million spent in 2007. During the year, Zargon purchased 62 thousand net Crown acres primarily consisting of natural gas prospective Alberta Crown lands for a total cost of $4.12 million or $66 per acre. Previously, Zargon had acquired 51 thousand net acres in 2007 and 42 thousand net acres in 2006 at average costs of $82 and $88 per acre, respectively. In addition to the 2008 Crown purchases, Zargon spent $0.68 million on a 2008 freehold leasing program, adding 13 thousand net acres of undeveloped land.

Zargon's undeveloped land inventory increased 16 percent in 2008 to 419 thousand net acres. This increase resulted from the acquisitions of Rival and Newpact and increased Crown and freehold leasing programs in 2008 compared to 2007, that were partially offset by 2008 land expiries. In 2009, Zargon anticipates undeveloped land expiries of approximately 86 thousand net acres and, of these land expiries, a significant percentage will be replenished by Crown and freehold land acquisitions or from corporate acquisitions.

Zargon's 419 thousand net acres of undeveloped land holdings, as of December 31, 2008, were valued at $70.45 million (based on the independent firm of Seaton-Jordan & Associates Ltd. ("Seaton-Jordan") valuation of Canadian undeveloped lands at $70.18 million and United States undeveloped land at USD$0.22 million converted at the year end exchange rate of 1.2246), a 63 percent increase over the prior year's $43.15 million appraisal (Canadian undeveloped land valued by Seaton-Jordan at $42.86 million and United States undeveloped land internally valued at $0.29 million), primarily as a result of an increase in Saskatchewan land values. This analysis reflects an average value of $168 per acre that compares to $119 per acre average in 2007.

As part of its continuing exploration effort, Zargon shot 199 kilometres of 2D seismic and 10 square kilometres of 3D seismic in 2008. Of this amount, approximately 181 kilometres were shot primarily at the Jarrow property in the Alberta Plains core area and approximately 18 kilometres at the Saddle Hills property in the West Central Alberta core area as Zargon continued to assess its considerable inventory of land and natural gas prospects in these areas. The 3D seismic program was shot at the Elswick property in the Williston Basin core area. Total geological and geophysical costs in 2008 were $4.44 million, which is one percent higher than the prior year's geological and geophysical expenditures of $4.41 million.

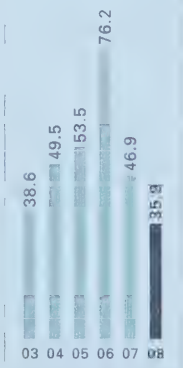
DRILLING, COMPLETIONS AND WORKOVERS

Reflecting a reduced Alberta Plains natural gas development program, Zargon drilled 35.9 net wells in 2008, a 23 percent decrease in drilling activity from 2007 and a 53 percent decrease from 2006. The 2008 drilling program resulted in 17.9 net oil wells, 14.5 net natural gas wells, 0.5 net water injection wells and 3.0 net dry holes. Zargon's success ratio was 92 percent in the 2008 drilling program, a decrease of two percent from the 94 percent success ratio in 2007.

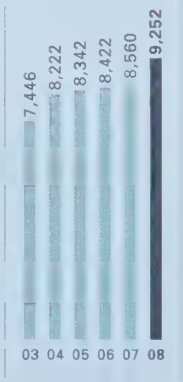
DRILLING ACTIVITY

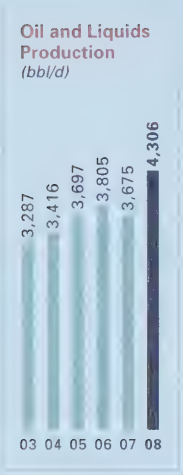
(Number of Wells)	2008		2007		2006	
	Gross	**Net**	Gross	Net	Gross	Net
Oil	**18**	**17.9**	14	11.6	26	22.5
Natural gas	**17**	**14.5**	36	32.7	57	47.7
Water injector	**1**	**0.5**	–	–	2	2.0
Dry	**3**	**3.0**	3	2.6	4	4.0
Total	**39**	**35.9**	53	46.9	89	76.2
Exploratory	**14**	**12.6**	20	17.7	30	28.8
Development	**25**	**23.3**	33	29.2	59	47.4
Total	**39**	**35.9**	53	46.9	89	76.2
West Central Alberta	**8**	**6.7**	7	6.2	16	14.7
Alberta Plains	**23**	**21.8**	35	32.1	48	39.5
Williston Basin	**8**	**7.4**	11	8.6	25	22.0
Total	**39**	**35.9**	53	46.9	89	76.2
Average Zargon Working Interest		92%		89%		86%

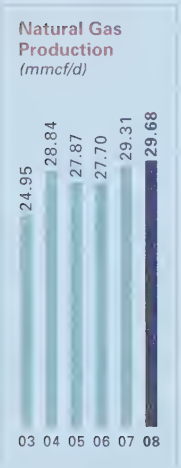
Drilling Activity
(net wells)

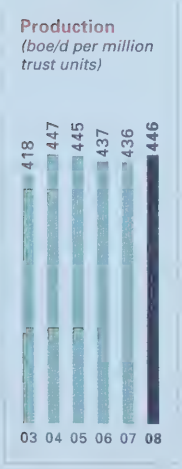


Production
(boe/d)









During 2008, Zargon operated the drilling of 36 gross wells with an average working interest of 97 percent. Zargon's minor participation in an additional three non-operated wells brought Zargon's average working interest to 92 percent. In 2008, the drilling program shifted to more of a focus on oil exploitation, particularly in the Bellshill Lake area acquired as part of the acquisition of Rival, with 50 percent of the net wells drilled as oil wells compared to 25 percent in 2007.

In 2008, expenditures for drilling, completion and workovers totalled $27.66 million, a 17 percent decrease from the $33.15 million spent in 2007. Drilling related expenditures were lower due primarily to Zargon's reduced activity levels. The 2008 program also included the completion of 31.4 net wells.

PRODUCTION EQUIPMENT AND FACILITIES

In 2008, Zargon spent $13.11 million, a 29 percent decrease over the prior year's level, on production equipment and facilities, which included gas plant expansions, oil battery modifications, the construction of approximately 24 net kilometres of pipelines and the tie-in of 29.0 net wells. Approximately 49 percent of these costs were incurred in Alberta Plains, 32 percent in West Central Alberta and 19 percent in Williston Basin core areas.

CORPORATE ACQUISITIONS

During 2008, Zargon took advantage of improved market values for corporate acquisitions with the closing of the Rival Energy Ltd. and Newpact Energy Corp. acquisitions.

The Rival acquisition closed on January 23, 2008, for a total transaction value of $47.82 million. The total consideration consisted of $16.69 million cash (including acquisition costs) the issuance of 573,300 Zargon trust units valued at $23.32 per unit along with the assumption of $17.77 million of net debt. The acquisition of Rival brought 1,000 barrels of oil equivalent per day of production and significant oil exploitation potential at Bellshill Lake in the Alberta Plains core area.

The Newpact acquisition closed on May 16, 2008, for a total transaction value of $12.03 million. The consideration consisted of the issuance of 425,940 Zargon trust units valued at $22.04 per unit, acquisition costs of $0.15 million and the assumption of net debt of $2.49 million. This acquisition brought 350 barrels of oil equivalent per day of production along with significant exploitation potential at the St. Anne property in the West Central Alberta core area.

PROPERTY ACQUISITIONS

Zargon's net property acquisitions totalled $6.19 million in 2008, compared to $1.86 million of net property acquisitions in 2007. During 2008, Zargon completed four property acquisitions and two small property dispositions. In 2007, Zargon concluded four property acquisitions and one property disposition.

PRODUCTION

Natural gas production volumes increased one percent in 2008 to average 29.68 million cubic feet per day, compared to 29.31 million cubic feet per day in 2007 (2006 – 27.70 million cubic feet per day). The increase in natural gas production was primarily due to the addition of volumes from the development programs at Jarrow and Hamilton Lake in the Alberta Plains core area and the tie-in of wells in 2008 from a successful 2007 drilling program in the West

Central Alberta core area. Crude oil and natural gas liquid sales volumes increased 17 percent in 2008 to 4,306 barrels per day, compared to 3,675 barrels per day in 2007 (2006 – 3,805 barrels per day). This production increase resulted primarily from the acquisition and further exploitation of properties from the Rival and Newpact acquisitions.

Zargon's 2008 average daily production increased eight percent to 9,252 barrels of oil equivalent per day compared to 8,560 barrels of oil equivalent per day in 2007 (2006 – 8,422 barrels of oil equivalent per day). On a production per total trust unit basis, Zargon produced 446 barrels of oil equivalent per day per million units in 2008, a two percent increase from the 2007 level of 436 barrels of oil equivalent per day per million units. During the year, natural gas production represented 53 percent of total volumes, a slight decrease from the 57 percent weighting in 2007.

RESERVES

Formal disclosure of oil, natural gas liquids and natural gas reserves as required by National Instrument 51-101 Standards of Disclosure ("NI 51-101") will be included in the Trust's Annual Information Form for the year ended December 31, 2008 that will be filed on SEDAR.

Since 1993, the independent engineering firm of McDaniel & Associates Consultants Ltd. ("McDaniel") has evaluated 100 percent of Zargon's reserves. Commencing with the 2003 year end report, Zargon's reserve estimates have been calculated in accordance with NI 51-101. Under NI 51-101, proved reserve estimates are defined as having a 90 percent probability that actual reserves recovered over time will equal or exceed proved reserve estimates. Probable reserves are defined under NI 51-101 so that there are equal (50 percent) probabilities that the actual reserves to be recovered will be less than, or greater than, the proved and probable reserves estimate.

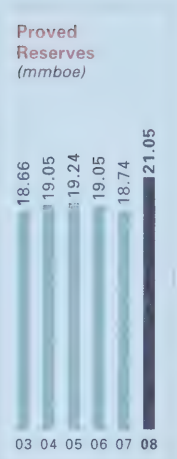
In a report dated February 24, 2009, McDaniel assigned the following reserve estimates based on forecast prices and costs as of December 31, 2008:

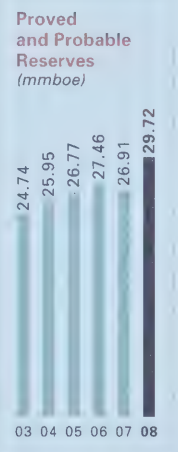
Trust Reserves [1]

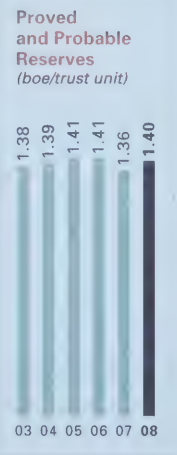
At December 31, 2008	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalents [2] (mmboe)
Proved producing	12.37	43.13	19.56
Proved non-producing	0.34	5.02	1.17
Proved undeveloped	0.27	0.32	0.32
Total proved	**12.98**	**48.47**	**21.05**
Probable additional	4.83	23.01	8.67
Total proved and probable	**17.81**	**71.48**	**29.72**
Proved producing reserve life index, years	7.6	3.9	5.7
Proved reserve life index, years	8.0	4.4	6.1
Proved and probable reserve life index, years	11.0	6.5	8.6

Notes:

1. *Trust working interest reserves before royalties, boe (6:1).*
2. *Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*







Proved and Probable Oil and Liquids Reserves
(mmbbl)

Proved and Probable Natural Gas Reserves
(bcf)

In the McDaniel report, proved producing reserves represent 93 percent of Zargon's total proved reserves while total proved reserves account for 71 percent of proved and probable reserves. These percentages compare to the respective 92 and 70 percentages reported in the 2007 year end report. Zargon's proved non-producing reserves are comprised primarily of natural gas reserves from recently drilled wells at the Alberta Plains Jarrow property and selected West Central Alberta properties and of oil reserves at the Alberta Plains Bellshill Lake property. McDaniel forecasts $10.03 million of net future (forecast prices) capital costs to deliver the total proved reserve estimate. Zargon's probable reserves generally reflect incremental waterflood recoveries on producing oil properties and improved gas recoveries for currently producing natural gas wells. McDaniel forecasts $27.52 million of net future (forecast prices) capital costs to deliver the total proved and probable reserve estimate.

Based on 2008 year end reserves and Zargon's 2008 fourth quarter production rates of 4,434 barrels of oil and liquids per day and 29.86 million cubic feet of natural gas per day, Zargon's proved reserve life index is 8.0 years for oil and liquids, 4.4 years for natural gas and 6.1 years on a barrel of oil equivalent basis. The corresponding proved and probable oil and liquids, natural gas and oil equivalent reserve life indices are 11.0, 6.5 and 8.6 years, respectively. The relatively high oil and liquids reserve life reflects Zargon's portfolio of long-life shallow-decline Williston Basin waterflood projects.

RESERVE RECONCILIATION

A reconciliation of the 2008 year end reserve assignments with the reserves reported in the 2007 year end report is presented below:

Reserve Reconciliation

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Probable	Proved	Probable	Proved & Probable	Proved	Probable	Proved & Probable
December 31, 2007	11.43	4.25	15.68	43.86	23.50	67.36	18.74	8.17	26.91
Discoveries and extensions	0.81	0.49	1.30	4.61	2.47	7.08	1.58	0.90	2.48
Revisions	0.76	(0.37)	0.39	3.86	(5.06)	(1.20)	1.39	(1.21)	0.18
Acquisitions and dispositions	1.56	0.46	2.02	7.00	2.10	9.10	2.73	0.81	3.54
Production	(1.58)	–	(1.58)	(10.86)	–	(10.86)	(3.39)	–	(3.39)
December 31, 2008	12.98	4.83	17.81	48.47	23.01	71.48	21.05	8.67	29.72

Proved reserves at December 31, 2008 increased 12 percent from the prior year. Proved 2008 reserve additions were 5.70 million barrels of oil equivalent (after revisions) or 4.31 million barrels of oil equivalent (before revisions). Positive technical proved reserve revisions were 1.39 million barrels of oil equivalent, which equated to seven percent of the 2008 proved reserves opening balance. Positive revisions were primarily attributed to the conversion of prior year probable reserves to proved reserves due to positive performance results.

On a proved and probable basis, Zargon's reserves increased 10 percent in 2008 as the addition of 6.20 million barrels of oil equivalent (after revisions) or 6.02 million barrels of oil equivalent (before revisions), which replaced 183 percent (178 percent before revisions) of Zargon's 2008 production. Field capital exploration and development programs provided 2.48 million

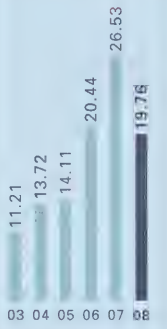
barrels of oil equivalent of new additions. The corporate acquisitions of Rival and Newpact and the net property acquisitions for 2008 added 3.54 million barrels of oil equivalent. Positive technical reserve revisions were 0.18 million barrels of oil equivalent. During the year, positive technical revisions pertaining to Williston Basin oil properties were offset by negative production performance related reserve adjustments at Jarrow in the Alberta Plains.

FINDING, DEVELOPMENT AND ACQUISITION COSTS

For 2008, Zargon's total proved finding, development and acquisition ("FD&A") costs, taking into account reserve revisions and changes in estimated future development capital during the period, were $20.80 per barrel of oil equivalent. For calculation purposes, the $119.39 million of 2008 net capital additions was combined with a decrease in estimated future development capital for total proved reserves of $0.81 million ($10.03 million at December 31, 2008 compared to $10.84 million at December 31, 2007). If the change in future development costs is excluded, the 2008 proved FD&A costs, taking into account reserve revisions, were $20.95 per barrel of oil equivalent.

For 2008, Zargon's proved and probable finding, development and acquisition ("FD&A") costs, taking into account reserve revisions and changes in estimated future development capital during the period, were $19.76 per barrel of oil equivalent. For calculation purposes, the $119.39 million of 2008 net capital additions was combined with an increase in estimated future development capital for proved and probable reserves of $3.10 million ($27.52 million at December 31, 2008 compared to $24.42 million at December 31, 2007). If the change in future development costs is excluded, the 2008 proved and probable FD&A costs, taking into account reserve revisions, were $19.26 per barrel of oil equivalent.

Proved and Probable Finding, Development and Acquisition Costs
($/boe)



Proved and Probable Finding, Development and Acquisition Costs [1]

	2008	2007	2006
Total net capital expenditures ($ millions) [2]	**119.39**	65.40	63.37
Total net capital expenditures plus change in forecast future development costs ($ millions)	**122.49**	68.19	76.85
Proved and probable reserves (mmboe)			
Open	**26.91**	27.46	26.77
Discoveries and extensions	**2.48**	2.55	4.29
Acquisitions and dispositions	**3.54**	–	(0.10)
Revisions	**0.18**	0.02	(0.43)
Production	**(3.39)**	(3.12)	(3.07)
Close	**29.72**	26.91	27.46
Proved and probable FD&A costs ($/boe) [3]	**19.76**	26.53	20.44
Proved and probable three-year FD&A costs ($/boe) [3]	**21.35**	19.58	15.98

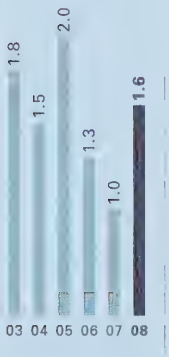
Notes:

1. *The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.*
2. *2008 and 2007 amounts exclude additions for administrative assets.*
3. *Amounts are calculated including the change in future development costs.*

Zargon experienced lower FD&A costs in 2008 as a result of a primary focus on oil exploitation and an improved operational execution on tie-ins, completions and other related activities. These gains coming from the improved field activities were augmented by the Rival and Newpact corporate acquisitions, which collectively provided a total of 3.04 million barrels of oil equivalent proved and probable reserve additions at an average cost of $20.01 per barrel of equivalent (inclusive of future capital).

In 2008, Zargon's corporate and net property acquisitions were $66.04 million. If the impact of the 2008 corporate and net property acquisitions is excluded, Zargon's proved and probable finding and development ("F&D") costs including future development costs would have been $21.22 per barrel of oil equivalent (2007 – $25.81 per barrel of oil equivalent).

Proved and Probable Trust Recycle Ratios



Capital Program Performance

	2008	2007	2006	Three-Year Average (2006–2008)
Trust funds flow from operating activities ($/boe) [1]	**31.57**	25.55	26.97	28.13
Total Capital Program (excluding future development costs)				
Proved and probable FD&A costs ($/boe) [2]	**19.26**	25.45	16.85	19.81
Trust recycle ratio [3]	**1.64**	1.00	1.60	1.42
Total Capital Program (including future development costs)				
Proved and probable FD&A costs ($/boe) [2]	**19.76**	26.53	20.44	21.35
Trust recycle ratio [3]	**1.60**	0.96	1.32	1.32
Capital Program (including future development costs) **Exclusive of Corporate and Net Property Acquisitions/Dispositions**				
Proved and probable F&D costs ($/boe) [2]	**21.22**	25.81	20.72	22.31
Trust recycle ratio [3]	**1.49**	0.99	1.30	1.26

Notes:

1. *Trust funds flow from operating activities including allowances for current taxes, interest and financing charges and general and administrative expenses on a barrel of oil equivalent production basis (6:1).*
2. *FD&A and F&D costs taking into account reserve revisions during the year on a barrel of oil equivalent basis (6:1).*
3. *Trust recycle ratio is defined as the Trust funds flow from operating activities per barrel of oil equivalent divided by proved and probable finding, development and acquisition costs per barrel of oil equivalent. In the case of amounts for the capital program exclusive of net acquisitions/dispositions and corporate acquisitions, the Trust funds flow per barrel of oil equivalent is divided by proved and probable finding and development costs.*

NET ASSET VALUE

Zargon's oil, natural gas liquids and natural gas reserves were evaluated using the McDaniel product price forecasts effective January 1, 2009, prior to provisions for income taxes, interest, debt service charges and general and administrative expenses.

It should not be assumed that the following discounted future net property cash flows estimated by McDaniel represent the fair market value of the reserves:

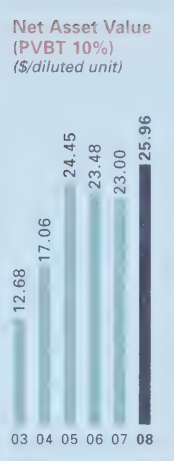
Before Tax Present Value of Future Net Revenue
(Forecast Price Case)

	Discount Factor			
($ millions)	0%	5%	10%	15%
Proved producing	659.9	496.7	401.4	339.8
Proved non-producing	29.7	24.3	20.5	17.6
Proved undeveloped	9.3	6.1	4.3	3.1
Total proved	**698.9**	**527.1**	**426.2**	**360.5**
Probable	359.5	207.8	140.8	104.3
Total proved and probable	**1,058.4**	**734.9**	**567.0**	**464.8**

The above discounted future net property cash flows are based on the McDaniel price assumptions that are contained in the following table:

McDaniel Report Pricing Assumptions
(Forecast Price Case)

	West Texas Intermediate Crude Oil ($US/bbl)	Edmonton Light Crude Oil ($Cdn/bbl)	Alberta Bow River Hardisty Crude Oil ($Cdn/bbl)	Saskatchewan Cromer Medium Crude Oil ($Cdn/bbl)	Alberta AECO Spot Natural Gas Price ($Cdn/mmbtu)	Exchange Rate ($US/$Cdn)	Inflation Rate (percent)
2009	60.00	69.60	54.80	61.80	7.40	0.85	2.0
2010	71.40	83.00	65.30	73.70	8.00	0.85	2.0
2011	83.20	91.40	72.00	81.20	8.45	0.90	2.0
2012	90.20	93.90	73.90	83.40	8.80	0.95	2.0
2013	97.40	96.30	75.90	85.60	9.05	1.00	2.0
2014	99.40	98.30	77.40	87.40	9.25	1.00	2.0
2015	101.40	100.30	79.00	89.10	9.45	1.00	2.0
2016	103.40	102.30	80.50	90.90	9.60	1.00	2.0
2017	105.40	104.20	82.10	92.60	9.80	1.00	2.0
2018	107.60	106.40	83.80	94.60	10.00	1.00	2.0
2019	109.70	108.50	85.40	96.40	10.20	1.00	2.0
2020	111.90	110.70	87.20	98.30	10.40	1.00	2.0
2021	114.10	112.80	88.90	100.30	10.60	1.00	2.0
2022	116.40	115.10	90.70	102.30	10.80	1.00	2.0
2023	118.80	117.50	92.50	104.40	11.05	1.00	2.0
Thereafter:	Escalate at 2.0%/ year	Escalate at 2.0%/ year	Escalate at 2.0%/ year	Escalate at 2.0%/ year	Escalate at 2.0%/ year	1.00	2.0



The following net asset value table shows what is customarily referred to as a "produce-out" net asset value calculation under which the current value of Zargon's reserves would be produced at the McDaniel forecast future prices and costs. The value is a snapshot in time as of December 31, 2008, and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. In this analysis, the present value of the proved and probable reserves is calculated at a before tax 10 percent discount rate. In the net asset value calculation, Zargon's 419 thousand net acres of undeveloped land is valued by the independent firm of Seaton-Jordan at $70.45 million (based on the Seaton-Jordan valuation of Canadian undeveloped lands at $70.18 million and United States undeveloped land at USD$0.22 million converted at the year end exchange rate of 1.2246).

Net Asset Value

As at December 31 ($ millions)	**2008**	2007	2006
Proved and probable reserves (PVBT 10%) [1][2]	**567.0**	470.1	448.8
Undeveloped land	**70.4**	43.2	43.6
Working capital (excluding unrealized risk management assets/liabilities and future income taxes)	**(10.1)**	(6.9)	(9.8)
Bank debt	**(77.6)**	(56.9)	(30.0)
Proceeds from the exercise of all trust unit rights	**42.3**	39.3	31.8
Net asset value (including trust unit rights dilution)	**592.0**	488.8	484.4
Net asset value per unit			
Total ($/unit)	**25.99**	22.75	23.30
With full dilution ($/unit) [3]	**25.96**	23.00	23.48

Notes:

1. *McDaniel estimate of future before tax cash flow discounted at PV 10 percent.*
2. *PVBT represents present value before taxes.*
3. *Full dilution of units represents the year end units outstanding plus the presumed exercise of all trust unit rights and the conversion of exchangeable shares converted at the exchange ratio at the end of the year. At December 31, 2008, Zargon had 18.479 million trust units, 1.862 million exchangeable shares and 1.654 million trust unit incentive rights issued and outstanding. Assuming conversion of exchangeable shares at the effective exchange ratio at year end of 1.43643 and the exercise of all trust unit incentive rights, there would be 22.808 million trust units outstanding at this date.*

HISTORY OF STABILITY

With the conversion during 2004 to a trust, Zargon's objectives are to sustain distributions, production and reserves on a per unit basis.

The following is a summary of the key metrics that Zargon monitors as it works towards meeting its objectives:

Key Metrics

	2008	2007	Percent Change
Cash distributions ($/trust unit)	**2.16**	2.16	–
Funds flow from operating activities ($/unit diluted)	**5.18**	4.08	27
Trust payout ratio (percent)	**42**	53	(21)
Average production (boe/d per million trust units)	**446**	436	2
Proved and probable reserves (boe/total unit)	**1.40**	1.36	3
Funds flow from operating activities ($/boe)	**31.57**	25.55	24
Proved and probable FD&A costs ($/boe)	**19.76**	26.53	(26)
Net debt ($/trust unit)	**4.25**	3.26	30
Trust recycle ratio	**1.60**	0.96	67

SIX-YEAR SUMMARY

	2008	2007	2006	2005	2004	2003
FINANCIAL ($ thousands, except per unit amounts)						
Petroleum and natural gas revenue	**229,494**	155,512	154,039	162,722	123,968	101,657
Less expenses – cash items						
Royalties	**46,644**	32,746	33,431	37,319	28,047	22,508
Production	**39,913**	32,620	26,416	24,035	21,692	17,201
General and administrative	**10,447**	8,209	6,973	6,053	4,358	3,542
Realized risk management (gain)/loss	**15,722**	(4,255)	569	7,754	4,568	2,882
Interest and financing charges	**4,911**	3,071	1,532	786	440	771
Current and capital taxes	**4,051**	2,143	1,598	1,801	1,114	406
Asset retirement expenditures	**897**	1,140	627	604	414	287
Funds flow from operating activities	**106,909**	79,838	82,893	84,370	63,335	54,060
Less expenses – non-cash items						
Depletion, depreciation and foreign exchange	**57,680**	48,184	41,160	37,283	26,850	19,363
Unrealized risk management (gain)/loss	**(44,378)**	16,796	(9,553)	3,756	–	–
Future income tax (recovery)	**12,751**	(15,470)	(2,824)	474	9,639	9,187
Accretion of asset retirement obligations	**2,183**	1,406	1,244	1,196	1,076	1,172
Unit-based compensation	**1,185**	1,705	1,856	902	3,682	264
Earnings before non-controlling interest	**78,385**	28,357	51,637	41,363	22,502	24,361
Less non-controlling interest – exchangeable shares	**10,100**	3,805	7,138	5,994	1,870	–
Net earnings	**68,285**	24,552	44,499	35,369	20,632	24,361
Cash flows from operating activities	**110,124**	76,303	83,735	82,969	63,354	53,124
Per unit, diluted						
Funds flow from operating activities	**5.18**	4.08	4.31	4.48	3.38	2.94
Cash flows from operating activities	**5.34**	3.90	4.35	4.40	3.38	2.89
Net earnings	**3.80**	1.45	2.68	2.19	1.20	1.33
Net capital expenditures	**119,733**	66,669	63,366	54,684	56,273	39,909
Cash distributions	**39,086**	36,695	35,902	37,444	10,702	–
Cash distributions ($/trust unit)	**2.16**	2.16	2.16	2.32	0.70	–
Balance sheet at year end						
Property and equipment, net	**386,746**	313,949	283,108	253,315	209,736	167,888
Bank debt	**77,581**	56,868	30,037	10,339	14,230	6,978
Unitholders' equity	**222,542**	161,478	165,562	144,613	120,622	112,469
Unitholders' equity ($/total units)	**10.52**	8.17	8.53	7.62	6.48	6.25
Year end total units outstanding (thousands)	**21,154**	19,761	19,424	18,988	18,610	17,992

	2008	2007	2006	2005	2004	2003
OPERATING						
Total production (boe/d)	**9,252**	8,560	8,422	8,342	8,222	7,446
Oil and liquids (bbl/d)	**4,306**	3,675	3,805	3,697	3,416	3,287
Natural gas (mmcf/d)	**29.68**	29.31	27.70	27.87	28.84	24.95
Equivalent per million trust units (boe/d)	**446**	436	437	445	447	418
Total proved reserves (mboe)	**21,055**	18,741	19,050	19,243	19,049	18,664
Proved oil and liquids (mbbl)	**12,976**	11,434	11,523	11,490	10,954	10,505
Proved natural gas (bcf)	**48.47**	43.86	45.15	46.52	48.57	48.96
Total proved and probable reserves (mboe)	**29,721**	26,908	27,464	26,771	25,955	24,745
Proved and probable oil and liquids (mbbl)	**17,807**	15,683	15,937	15,354	14,361	13,566
Proved and probable natural gas (bcf)	**71.48**	67.36	69.15	68.50	69.56	67.07
Equivalent per total unit (boe)	**1.40**	1.36	1.41	1.41	1.39	1.38
Average selling price before the impact of financial risk management contracts						
WTI crude oil price ($US/bbl)	**99.65**	72.31	66.22	56.56	41.40	31.04
Edmonton par crude oil price ($Cdn/bbl)	**102.16**	76.35	72.77	68.72	52.54	43.14
Zargon realized crude oil price ($Cdn/bbl)	**89.65**	64.71	61.25	57.15	45.37	36.66
NYMEX average daily spot natural gas price ($US/mmbtu)	**8.88**	6.98	6.75	8.89	5.90	5.49
AECO average daily spot natural gas price ($Cdn/mmbtu)	**8.16**	6.45	6.54	8.77	6.55	6.70
Zargon realized natural gas price ($Cdn/mcf)	**8.12**	6.40	6.82	8.41	6.37	6.33
Other data						
Wells drilled, net	**35.9**	46.9	76.2	53.5	49.5	38.6
Undeveloped land (thousand net acres)	**419**	362	381	367	376	398
Closing trust unit price ($/unit)	**17.44**	23.06	24.79	31.75	23.85	13.50

Notes:

Throughout this report, funds flow from operating activities, funds flow from operating activities per diluted unit and funds flow netbacks are now calculated inclusive of asset retirement expenditures. All prior period calculations have been restated to reflect this change.

Throughout this report, the calculation of barrels of oil equivalent ("boe") is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil. For a further discussion about this term, refer to the Management's Discussion and Analysis.

Funds flow from operating activities is a non-GAAP term that represents net earnings and asset retirement expenditures except for non-cash items. Cash flows from operating activities differ from funds flow from operating activities as a result of changes in non-cash working capital. For a further discussion about this term, refer to the Management's Discussion and Analysis.

For net capital expenditures, amounts include capital expenditures acquired for cash, equity issuances, acquisition costs and net debt assumed on corporate acquisitions.

Cash distributions to unitholders commenced subsequent to the reorganization of the Company into a Trust effective July 15, 2004.

Total units outstanding include trust units plus exchangeable shares outstanding at year end. The exchangeable shares are converted at the exchange ratio at the end of the year.

Average daily production per million trust units is calculated using the weighted average number of units outstanding during the year, plus the weighted average number of exchangeable shares outstanding for the year converted at the average exchange ratio for the year.

Certain comparative period numbers reflect retroactive restatement due to a change in accounting policy.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Craig H. Hansen
Calgary, Alberta

K. James Harrison [3] [4]
Chairman of the Board
Oakville, Ontario

Kyle D. Kitagawa [1] [2]
Calgary, Alberta

Margaret A. McKenzie [1] [3]
Calgary, Alberta

Jim Peplinski [2] [4]
Calgary, Alberta

J. Graham Weir [1] [2]
Calgary, Alberta

Grant A. Zawalsky [3] [4]
Calgary, Alberta

OFFICERS

Craig H. Hansen
President and Chief Executive Officer

Brent C. Heagy
Executive Vice President and Chief Financial Officer

Daniel A. Roulston
Executive Vice President, Engineering

Henry J. Baird
Vice President, Exploitation

Jason B. Dranchuk
Controller and Treasurer

Tracy L. Howard
Corporate Secretary

Brian G. Kergan
Vice President, Corporate Development and Reserves

Mark I. Lake
Vice President, Exploration

Lorne D. Schwetz
Vice President, Land

(1) Audit Committee
(2) Reserves Committee
(3) Governance and Nominating Committee
(4) Compensation Committee

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Zargon Energy Trust
Trust Units
Trading Symbol: ZAR.UN

Zargon Oil & Gas Ltd.
Exchangeable Shares
Trading Symbol: ZOG.B

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310, 606 – 4th Street S.W.
Calgary, Alberta T2P 1T1

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The Annual and Special meeting of the Unitholders of Zargon Energy Trust will be held on Wednesday, April 22, 2009, at 3:00 pm (Calgary time) in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

ABBREVIATIONS

bbl	Barrel
bbl/d	Barrels per day
bcf	Billion cubic feet
boe	Barrels of oil equivalent (6 mcf is equivalent to 1 bbl)
boe/d	Barrels of oil equivalent per day
btu	British thermal units
F&D	Finding and development
FD&A	Finding, development and acquisition
gj	Gigajoule
gj/d	Gigajoules per day
m	Thousand
mm	Million
mmbtu	Million British thermal units
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
PV	Present value
PVBT	Present value before tax

Forward-Looking Statements *– This document offers our assessment of Zargon's future plans and operations as at March 9, 2009, and contains forward-looking statements including:*

- *our expectations for our cash distributing structure and cash distributions referred to under the headings "President's Message" and "Questions";*
- *our expectations for capital programs, acquisitions and developments referred to under the headings "President's Message", "Questions" and "Key Initiatives";*
- *our expectations for corporate size and future production levels referred to under the heading "Questions";*
- *our expectations for our hedging program referred to under the heading "Questions";*
- *our expectations for changes in undeveloped land referred to under the heading "Activity Review".*

Such statements are generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including such as those relating to results of operations and financial condition, general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which is available on our website and at www.sedar.com. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, including among other things, future oil and natural gas prices, future capital expenditure levels, future production levels, future exchange rates, the cost of developing and expanding our assets, our ability to obtain equipment in a timely manner to carry out development activities, our ability to market our oil and natural gas successfully to current and new customers, the impact of increasing competition, our ability to obtain financing on acceptable terms, and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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ZARGON
ENERGY TRUST

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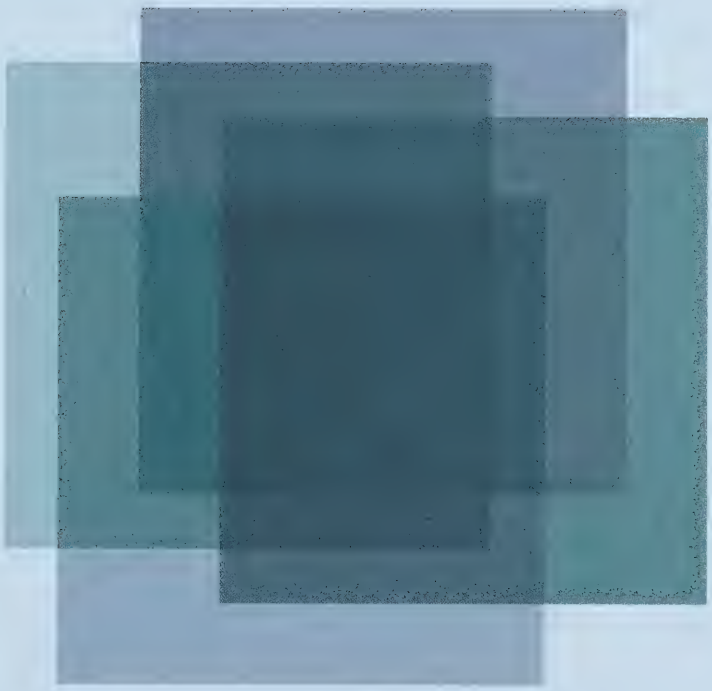
ZARGON

Zargon Energy Trust

2008 Annual Financial Report



1 Management's Discussion and Analysis
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Management's discussion and analysis ("MD&A") is a review of Zargon Energy Trust's 2008 financial results and should be read in conjunction with the audited consolidated financial statements and related notes for the years ended December 31, 2008 and 2007. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise noted. All references to "Zargon" or the "Trust" refer to Zargon Energy Trust and all references to the "Company" refer to Zargon Oil & Gas Ltd.

In the MD&A, reserves and production are commonly stated in barrels of oil equivalent ("boe") on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalent conversion method primarily applicable to the burner tip and does not represent a value equivalent at the wellhead.

The following are descriptions of non-GAAP measures used in this MD&A:

- *The MD&A contains the term "funds flow from operating activities" ("funds flow"), which should not be considered an alternative to, or more meaningful than, "cash flows from operating activities" as determined in accordance with Canadian GAAP as an indicator of the Trust's financial performance. This term does not have any standardized meaning as prescribed by GAAP and, therefore, the Trust's determination of funds flow from operating activities may not be comparable to that reported by other trusts. The reconciliation between cash flows from operating activities and funds flow from operating activities can be found in the table below and in the consolidated statements of cash flows in the consolidated financial statements. The Trust evaluates its performance based on net earnings and funds flow from operating activities. The Trust considers funds flow from operating activities to be a key measure as it demonstrates the Trust's ability to generate the cash necessary to pay distributions, repay debt and to fund future capital investment. It is also used by research analysts to value and compare oil and gas trusts, and it is frequently included in published research when providing investment recommendations. Funds flow from operating activities per unit is calculated using the diluted weighted average number of units for the period.*

Funds Flow from Operating Activities Reconciliation

($ millions)	**2008**	2007	2006
Cash flows from operating activities	**110.12**	76.30	83.74
Changes in non-cash operating working capital	**(3.21)**	3.54	(0.85)
Funds flow from operating activities [1]	**106.91**	79.84	82.89

(1) Throughout this report, funds flow from operating activities is now calculated inclusive of asset retirement expenditures. All prior period calculations have been restated to reflect this change.

- *The Trust also uses the term "debt net of working capital" or "net debt". Debt net of working capital, as presented, does not have any standardized meaning prescribed by Canadian GAAP and may not be comparable with the calculation of similar measures for other entities. Debt net of working capital, as used by the Trust, is calculated as bank debt and any working capital deficit excluding unrealized risk management assets/liabilities and future income taxes.*

- *Operating netbacks per boe equal total petroleum and natural gas revenue per boe adjusted for realized risk management gains and/or losses per boe, royalties per boe and production costs per boe. Operating netbacks are a useful measure to compare the Trust's operations with those of its peers.*

- *Funds flow netbacks per boe are calculated as operating netbacks less general and administrative expenses per boe, interest and financing charges per boe, asset retirement expenditures per boe and current income taxes per boe. Funds flow netbacks are a useful measure to compare the Trust's operations with those of its peers.*

References to "production volumes" or "production" in this MD&A refer to sales volumes.

Forward-Looking Statements – This document offers our assessment of Zargon's future plans and operations as at March 9, 2009, and contains forward-looking statements including:

- *our expectations for production costs referred to under the heading "Production Expenses";*
- *our expectations for taxes referred to under the headings "Current Income Taxes" and "Future Income Taxes";*
- *our expected sources of funds for distributions and capital expenditures referred to under the heading "Liquidity and Capital Resources";*
- *our expectations for future commodity pricing and operating results referred to under the heading "Outlook";*
- *our expectations for the future impact of changes to environmental regulations referred to under the heading "Environmental Regulation and Risk";*
- *our expectations as to the impact of the recent global economic crisis to Zargon referred to under the heading "Business Risks";*
- *our expectations of the impact of legislated modifications to Alberta Crown royalties referred to under the heading "Alberta Royalty and Tax Regime"; and*
- *our distribution policy referred to under the headings "Cash Distributions" and "Liquidity and Capital Resources".*

Such statements are generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including such as those relating to results of operations and financial condition, general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which is available on our website and at www.sedar.com. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, including among other things, future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition, our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This MD&A has been prepared as of March 9, 2009.

2008 HIGHLIGHTS

Increased crude oil and natural gas prices and increased production volumes enabled Zargon to achieve record revenues and funds flow from operating activities in 2008. During 2008, Zargon's 48 percent gain in revenues to $229.49 million came primarily from an eight percent increase in production volumes, a 39 percent gain in oil and liquid prices and a 27 percent increase in natural gas prices. Zargon's 2008 funds flow from operating activities showed a 34 percent increase to $106.91 million. Net earnings for the year were $68.29 million, a 178 percent increase from 2007. The majority of the changes in the net earnings resulted from the above mentioned changes and from the large increases in the non-cash unrealized risk management gains.

Net capital expenditures for 2008 totalled $119.73 million with $53.35 million allocated to field-related activities, $6.19 million to net property acquisitions, $59.85 million to corporate acquisitions and $0.34 million to administrative assets. Compared to the prior year, the 2008 capital program showed an 80 percent increase in overall net expenditures and a 16 percent decrease in field-related expenditures. For the year ended December 31, 2008, Zargon spent $8.14 million to maintain an undeveloped land base of 419 thousand net acres (2007 – 362 thousand net acres); shot or acquired seismic at a cost of $4.44 million; drilled, equipped and tied-in wells for $40.77 million and concluded $66.04 million of corporate and net property acquisitions. Cash distributions to unitholders totalled $39.09 million during the 2008 year (2007 – $36.70 million). All of these activities were funded by the year's funds flow plus an increase in debt net of working capital (excluding the unrealized risk management assets/liabilities and future income taxes) of $23.95 million.

Financial Highlights

($ millions, except for per unit amounts)	**2008**	2007	2006
Petroleum and natural gas revenue	**229.49**	155.51	154.04
Funds flow from operating activities [1]	**106.91**	79.84	82.89
Per unit – diluted	**5.18**	4.08	4.31
Cash flows from operating activities	**110.12**	76.30	83.74
Per unit – diluted	**5.34**	3.90	4.35
Net earnings	**68.29**	24.55	44.50
Per unit – diluted	**3.80**	1.45	2.68
Total assets	**447.60**	343.11	310.57
Net capital expenditures [2]	**119.73**	66.67	63.37
Bank debt	**77.58**	56.87	30.04
Cash distributions	**39.09**	36.70	35.90

(1) Throughout this report, funds flow from operating activities is now calculated inclusive of asset retirement expenditures. All prior period calculations have been restated to reflect this change.

(2) Amounts include capital expenditures for corporate and property acquisitions acquired for cash consideration, equity issuances, net debt assumed and are also inclusive of transaction costs.

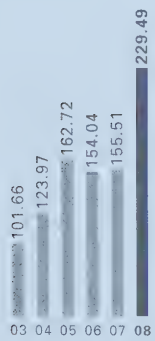
Cash Distributions

Cash distributions to unitholders are at the discretion of the Board of Directors and can fluctuate depending on funds flow from operating activities. The Trust's capital program is financed from available funds flow, equity issuances and additional draw downs on the bank facilities, if required. The key drivers of Zargon's funds flow are commodity prices and production volumes. Since the Trust's production is relatively evenly weighted between natural gas (2008 – 53 percent) and oil and liquids (2008 – 47 percent), both commodity prices have a significant effect on its funds flow. In the event that oil and natural gas prices and/or production volumes are higher than anticipated and a cash surplus develops, the surplus may be used to increase distributions, reduce debt, and/or increase the capital program. In the event that oil and natural gas prices and/or production volumes are lower than expected, the Trust may decrease distributions, increase debt and/or decrease the capital program. Zargon regularly reviews its monthly distribution policy in the context of the current commodity price environment, production levels and capital program requirements. Monthly distributions remained constant throughout 2008 at $0.18 per trust unit and have been maintained at this level since November 2005. Cash distributions to unitholders declared for 2008 totalled $39.09 million. For a further discussion, see the "Liquidity and Capital Resources" section of this report.

For Canadian income tax purposes, the 2008 cash distributions are 100 percent taxable income to unitholders.

DETAILED FINANCIAL ANALYSIS

Petroleum and Natural Gas Revenue
($ millions)



Petroleum and Natural Gas Revenue

Zargon derives its revenue from the production and sale of petroleum (oil, natural gas liquids) and natural gas. Petroleum and natural gas revenue, exclusive of the impact of financial risk management contracts, increased 48 percent to $229.49 million in 2008 from $155.51 million in 2007 primarily due to increased commodity prices throughout the 2008 spring and summer months and an increase in overall production. Compared to the prior year, the relative weighting of production revenue between petroleum and natural gas in 2008 was reallocated due to commodity pricing with 62 percent of the revenues coming from the sale of oil and liquids (56 percent in 2007) and 38 percent coming from the sale of natural gas (44 percent in 2007). Production volumes on a barrel of oil equivalent basis in 2008 increased eight percent to 9,252 barrels of oil equivalent per day from the prior year amount of 8,560 barrels of oil equivalent per day. Specifically, in 2008, natural gas production increased one percent and oil and liquids production increased 17 percent over 2007 levels. Production volume increases in oil and liquids resulted primarily from the 2008 first quarter corporate acquisition of Rival Energy Ltd. ("Rival") more than offsetting natural declines in the Alberta Plains and Williston Basin core areas. Natural gas production increases resulted from the 2008 second quarter additions of volumes related to the corporate acquisitions of Newpact Energy Corp. ("Newpact"), Rival and the ongoing development program in the West Central Alberta core area, offset by natural production declines. The average field price of oil and liquids received by Zargon rose to $89.65 per barrel in 2008, up 39 percent from $64.71 per barrel in 2007. The average Zargon realized field price of natural gas was $8.12 per thousand cubic feet in 2008, a 27 percent increase from $6.40 per thousand cubic feet in 2007.

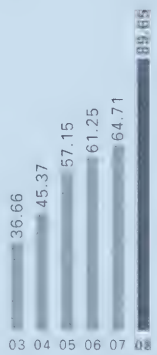
Pricing

Average for the year	2008	2007	2006
Natural Gas:			
NYMEX average daily spot price ($US/mmbtu)	**8.88**	6.98	6.75
AECO average daily spot price ($Cdn/mmbtu)	**8.16**	6.45	6.54
Zargon realized field price before the impact of financial risk management contracts ($Cdn/mcf)	**8.12**	6.40	6.82
Zargon realized field price before the impact of physical and financial risk management contracts ($Cdn/mcf)	**8.06**	6.26	6.43
Zargon realized field price after the impact of physical and financial risk management contracts ($Cdn/mcf)	**8.10**	6.82	7.21
Zargon realized natural gas field price differential/(premium) [1]	**0.04**	0.05	(0.28)
Crude Oil:			
WTI ($US/bbl)	**99.65**	72.31	66.22
Edmonton par price ($Cdn/bbl)	**102.16**	76.35	72.77
Zargon realized field price before the impact of financial risk management contracts ($Cdn/bbl)	**89.65**	64.71	61.25
Zargon realized field price after the impact of financial risk management contracts ($Cdn/bbl)	**79.82**	64.54	58.05
Zargon realized oil field price differential [2]	**12.51**	11.64	11.52

(1) Calculated as Zargon's realized field price before the impact of financial risk management contracts ($Cdn/mcf) as compared to AECO average daily spot price ($Cdn/mmbtu). Note: premiums may occur as a result of the realization of fixed price physical contracts and the impact of Zargon receiving AECO monthly index pricing for a portion of its natural gas production.

(2) Calculated as Zargon's realized field price before the impact of financial risk management contracts ($Cdn/bbl) as compared to Edmonton par price ($Cdn/bbl).

Oil and Liquids Prices
($/bbl)



Natural Gas Prices
($/mcf)

Petroleum (Oil and Natural Gas Liquids) Pricing

Zargon's field oil and natural gas liquids prices are adjusted at the point of sale for transportation charges and oil quality differentials from an Edmonton light sweet crude price that varies with world commodity prices. In 2008, Zargon's average oil and liquids field price, exclusive of the impact of financial risk management contracts, increased 39 percent to $89.65 per barrel from $64.71 per barrel in 2007 and $61.25 per barrel in 2006. The field price differential for Zargon's average blended 30 degree API crude stream was $12.51 per barrel less than the 2008 Edmonton reference crude price, which compares to the 2007 differential of $11.64 per barrel and the 2006 differential of $11.52 per barrel. As the quality and weight of Zargon's crude stream has remained relatively consistent for several years, the movements in Zargon's price differential are derived from the North American refinery supply and demand factors for light and medium crudes. Oil and natural gas liquids transportation expenses are included in production expenses and are defined by the point of legal transfer of the product.

Natural Gas Pricing

The average field natural gas price, exclusive of the impact of financial risk management contracts, for 2008 increased to $8.12 per thousand cubic feet, which is 27 percent higher than the 2007 average of $6.40 per thousand cubic feet and 19 percent higher than the 2006 average of $6.82 per thousand cubic feet. Historically, Zargon's field prices have shown a small discount to the benchmark AECO average daily price due to a lower heating content for Zargon's natural gas and due to legacy aggregator and other contracts, which are based partially on monthly index prices that tend to lag the AECO average daily index price in upward or downward trending markets. The 2008 field price differential for Zargon's natural

gas before the impact of physical and financial risk management contracts was a discount of $0.10 per thousand cubic feet. In 2008, the various fixed price physical contracts, which are treated as part of natural gas production revenue and natural gas pricing, created a gain of $0.48 million (2007 – $1.14 million), equivalent to an increase of $0.04 per thousand cubic feet (2007 – $0.11 per thousand cubic feet).

Approximately 18 percent of Zargon's 2008 natural gas production (2007 – 21 percent) was sold under aggregator contracts pursuant to long term contracts. The remainder of Zargon's natural gas production was sold by spot sale contracts and Alberta index prices were received.

Risk Management Activities

Zargon's commodity price risk management policy, which is approved by the Board of Directors, allows the use of forward sales and costless collars for a targeted range of 20 to 30 percent of oil and natural gas working interest production volumes in order to partially offset the effects of large commodity price fluctuations. Because our risk management strategy is protective in nature and is designed to guard the Trust against extreme effects on funds flow from sudden falls in prices and revenues, upward price spikes tend to produce overall losses.

For 2008, the total realized risk management loss was $15.72 million; compared to a gain of $4.26 million in 2007 and a loss of $0.57 million in 2006. Of the 2008 loss, $0.23 million (equivalent to a decrease of $0.02 per thousand cubic feet) is related to a loss from natural gas financial risk management transactions and $15.49 million (equivalent to a decrease of $9.83 per barrel) related to losses from oil financial risk management transactions. Oil swaps and collars are settled against the NYMEX WTI pricing index, whereas natural gas swaps, collars and puts are settled against the AECO monthly pricing index. In 2008, NYMEX WTI crude oil prices rose throughout the first half of the year, peaking in July before falling in the second half of the year. AECO natural gas prices followed a similar trend, reaching its yearly high in late June and early July before trending downward. These mid-year upward spikes in both crude oil prices and natural gas prices resulted in overall year-to-date realized risk management losses for 2008.

Zargon's management considers financial risk management contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes, and accordingly, for these contracts, an unrealized gain or loss is recorded based on the fair value (mark-to-market) of the contracts at year end. The 2008 net unrealized risk management gain totalled $44.38 million which compares to a $16.80 million net unrealized risk management loss in 2007 (2006 – $9.55 million gain). Specifically, the 2008 net unrealized risk management gains resulted from financial oil contract gains ($43.38 million) and financial natural gas contract gains ($1.44 million) and were offset by financial foreign exchange contract losses ($0.44 million). These unrealized risk management gains or losses are generated by the change over the reporting period in the mark-to-market valuation of Zargon's future financial contracts. Gains or losses on fixed price physical contracts are included in petroleum and natural gas revenue when settled in the statements of earnings and comprehensive income and no mark-to-market valuation is recorded on these contracts.

During the 2008 fourth quarter, Zargon has entered into US/Cdn. foreign currency financial risk management contracts for calendar 2009 and the first half of 2010. The purpose of these financial risk management contracts is to secure future Canadian dollar cash flows on a portion of Zargon's future oil production. The 2009 foreign currency contracts have effectively converted 900 barrels per day of Zargon's 2009 US dollar oil swap contracts from US$99.73 per barrel of oil to Cdn$120.79 per barrel of oil. Additionally, for the first half of 2010, Zargon's US dollar oil swap contracts (300 barrels per day) have been converted from US$132.98 per barrel of oil to Cdn$155.79 per barrel of oil. Foreign exchanges options are settled against the Bank of Canada monthly average Daily Noon Rate for United States dollars converted to Canadian dollars.

As at December 31, 2008, the Trust had the following outstanding commodity and foreign currency risk management contracts:

Commodity Financial Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms
Oil swaps	500 bbl/d	$72.74 US/bbl	Jan. 1/09 – Mar. 31/09
	500 bbl/d	$87.58 US/bbl	Jan. 1/09 – Jun. 30/09
	300 bbl/d	$107.40 US/bbl	Jan. 1/09 – Sep. 30/09
	500 bbl/d	$114.97 US/bbl	Apr. 1/09 – Dec. 31/09
	500 bbl/d	$85.30 US/bbl	Jul. 1/09 – Dec. 31/09
	300 bbl/d	$132.98 US/bbl	Oct. 1/09 – Jun. 30/10
Natural gas swaps	4,000 gj/d	$9.71/gj	Jan. 1/09 – Mar. 31/09
	2,000 gj/d	$9.60/gj	Apr. 1/09 – Oct. 31/09

Foreign Exchange Financial Risk Management Contracts:

	Average Monthly US Dollar Volume	Foreign Exchange Rate ($Cdn/$US)	Range of Terms
Foreign exchange forwards	$1,517,000	1.1760	Jan. 1/09 – Dec. 31/09
	$1,213,000	1.2550	Jan. 1/09 – Dec. 31/09
	$1,203,000	1.1715	Jan. 1/10 – Jun. 30/10

Physical Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms
Natural gas fixed price	5,000 gj/d	$8.99/gj	Jan. 1/09 – Mar. 31/09
	3,000 gj/d	$8.47/gj	Apr. 1/09 – Oct. 31/09

Royalties

Royalties include payments made to the Crown, freehold owners and third parties. Reported royalties also include the cost of the Saskatchewan Resource Surcharge ("SRC") and the cost of North Dakota state taxes. During 2008, total royalties were $46.64 million, an increase of 42 percent from $32.75 million in 2007. Royalties as a percentage of gross revenue were 20.3 percent in 2008 compared to 21.1 percent in 2007 and 21.7 percent in 2006. On a commodity basis, natural gas royalties averaged 19.7 percent in 2008, a slight decrease from the previous year's average of 20.9 percent, resulting primarily from prior years' freehold mineral tax adjustments. Oil royalties averaged 20.7 percent, down slightly from the prior year 2007 rate of 21.2 percent. The decrease in oil royalties is primarily related to initial low royalty rate incentives on certain new oil production wells in Saskatchewan.

During 2008, 58 percent (2007 – 59 percent) of the total royalties were paid to provincial and state governments, with the remainder paid to freehold owners and other third parties. The SRC charges were $1.63 million in 2008, up slightly from $1.10 million in the prior year and from $1.01 million in 2006, reflecting the trend in Saskatchewan oil revenues. North Dakota state taxes increased to $2.47 million in 2008 from $2.01 million in the prior year primarily due to increased sales revenue (higher oil prices received) despite decreased oil production and sales for the US operations. Commencing in 2009, the oil and natural gas royalty structure will change on Alberta related production volumes. Further discussion regarding this issue is provided later in this report.

Production Expenses

Zargon's production expenses increased 22 percent to $39.91 million in 2008 from $32.62 million in 2007. On a per unit of production basis, production expenses increased 13 percent to $11.79 per barrel of oil equivalent from $10.44 in 2007 ($8.59 in 2006).

Natural gas production expenses in 2008 rose 18 percent to $1.55 per thousand cubic feet from $1.31 per thousand cubic feet in 2007. The primary reasons for the increase are due to increased third-party natural gas gathering charges, increased third-party natural gas processing fees and increased water disposal and water hauling costs. These increased costs reflect the impact of additional natural gas volumes being processed through non-operated third-party natural gas gathering and processing facilities.

Oil production expenses also rose in 2008 to $14.63 per barrel, an increase of five percent from $13.89 per barrel in 2007. The primary reasons for the increase are due to increased workovers and increased repairs and annual maintenance programs that are reflective of a continuing industry-wide trend to higher oil property operating costs, particularly in the Williston Basin.

In 2008, 2007 and 2006, Zargon's costs increased substantially due, in general, to the effect of industry-wide production cost inflation pressures, which may now be somewhat abating due to lower industry activity levels in response to recent oil and natural gas price declines. In particular, operating costs averaged $12.61 per barrel of oil equivalent in the fourth quarter of 2008 up from $12.10 per barrel of oil equivalent in the 2008 third quarter. For 2009, Zargon anticipates that production costs can be stabilized in the $12.50 to $13.00 per barrel of oil equivalent range as general cost inflation pressures subside as a result of the current economic slowdown.

Operating Netbacks

The average oil and liquids price received, after realized risk management losses, in 2008 of $79.82 per barrel was 24 percent higher than the $64.54 per barrel received in 2007, and the average natural gas price received, after realized risk management gains/losses, in 2008 of $8.10 per thousand cubic feet was 19 percent above the $6.82 per thousand cubic feet received in 2007. Operating netbacks increased commensurately. Oil and liquids netbacks rose 26 percent to $46.60 per barrel from $36.93 per barrel in 2007. Natural gas netbacks increased 19 percent to $4.95 per thousand cubic feet from $4.17 per thousand cubic feet in 2007. On a barrel of oil equivalent basis, 2008 operating netbacks increased 24 percent to $37.56 from $30.21 in 2007.

Operating Netbacks

	2008		2007	
	Oil and Liquids ($/bbl)	**Natural Gas ($/mcf)**	Oil and Liquids ($/bbl)	Natural Gas ($/mcf)
Production revenue	**89.65**	**8.12**	64.71	6.40
Realized risk management gain/(loss)	**(9.83)**	**(0.02)**	(0.17)	0.42
Royalties	**(18.59)**	**(1.60)**	(13.72)	(1.34)
Production costs	**(14.63)**	**(1.55)**	(13.89)	(1.31)
Operating netbacks	**46.60**	**4.95**	36.93	4.17

General and Administrative Expenses

Gross general and administrative costs increased 18 percent in 2008 to $13.80 million from $11.69 million in 2007. On a per unit of production basis, net general and administrative costs increased 17 percent to $3.08 per barrel of oil equivalent compared to $2.63 per barrel of oil equivalent in 2007 and $2.27 in 2006. Trending upwards from 2006 and 2007, the 2008 increased general and administrative costs on a per unit of production basis were primarily attributed to the expansion of Zargon's technical staff and consultants and additional office lease costs.

General and Administrative Expenses

($ millions, except as noted)	**2008**	2007	2006
Gross general and administrative expenses	**13.80**	11.69	10.25
Overhead recoveries	**(3.35)**	(3.48)	(3.28)
Net general and administrative expenses	**10.45**	8.21	6.97
Net expense after recoveries ($/boe)	**3.08**	2.63	2.27
Number of office employees at year end	**53**	45	43

Interest and Financing Charges

Zargon's borrowings are through its syndicated bank credit facilities. Interest and financing charges were $4.91 million compared to $3.07 million in 2007 and $1.53 million in 2006. An increase in the average debt level is the primary reason for the increase in interest and financing charges. Zargon's effective interest and financing charge rate was 5.2 percent on an average outstanding bank debt of $95.07 million in 2008, compared to 6.2 percent on an average bank debt of $49.86 million in 2007 and 6.4 percent on an average bank debt of $23.84 million in 2006. At year end 2008, Zargon's bank debt, net of working capital (excluding unrealized risk management assets/liabilities and future income taxes), totalled $87.71 million, up 38 percent from $63.76 million at December 31, 2007, primarily due to net debt acquired and cash consideration paid related to the corporate acquisitions of Rival Energy Ltd. and Newpact Energy Corp. For more information on Zargon's credit facilities, see the "Bank Debt" section of this report.

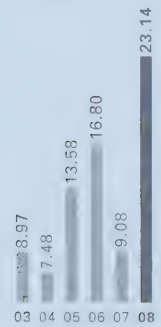
Current Income Taxes

Current income taxes for 2008 were $4.05 million compared to $2.14 million in 2007. Of the total, $3.08 million is due to current taxes incurred in the United States compared to $2.04 million in 2007. On a year-over-year comparison, current income taxes have increased due to increased 2008 taxable income in the United States related to higher revenue attributed to higher oil prices in the first half of 2008. Oil prices declined in the latter half of 2008, and provided that they remain at these depressed levels, a lower level of United States current income taxes is anticipated in 2009. The remaining current tax amounts relate to withholding taxes on US dividends declared from Zargon's US subsidiary to its parent corporation and Canadian provincial capital taxes, which totalled $0.97 million in 2008 compared to $0.10 million in 2007.

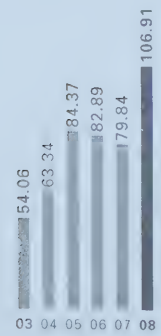
Tax pools as at December 31, 2008 were approximately $188 million, which represents an increase from the comparable $148 million of tax pools available to Zargon at the end of 2007, primarily due to the tax pools acquired in the Rival and Newpact acquisitions. The Trust is a taxable entity under the Income Tax Act (Canada) and is currently only taxable (until 2011) on the income that is not distributed or declared distributable to unitholders. For Canadian income tax purposes, 2008 cash distributions are 100 percent taxable income to unitholders.

Funds Flow Netbacks
($/boe)

Earnings Before Non-Controlling Interest Netbacks
($/boe)



Funds Flow from Operating Activities
($ millions)



Trust Netbacks

Higher oil and natural gas prices and increased production volumes in 2008 resulted in relatively strong revenue netbacks and operating netbacks. On a barrel of oil equivalent basis, revenue of $67.77 in 2008 was 36 percent higher than the prior year and operating netbacks, as well as funds flow netbacks both increased 24 percent over the prior year to $37.56 and $31.57 per barrel of oil equivalent, respectively.

Trust Netbacks

($/boe)	**2008**	2007	2006
Petroleum and natural gas revenue	**67.77**	49.77	50.11
Realized risk management gain/(loss)	**(4.65)**	1.36	(0.18)
Royalties	**(13.77)**	(10.48)	(10.88)
Production costs	**(11.79)**	(10.44)	(8.59)
Operating netbacks	**37.56**	30.21	30.46
General and administrative	**(3.08)**	(2.63)	(2.27)
Interest and financing charges	**(1.45)**	(0.98)	(0.50)
Asset retirement expenditures	**(0.26)**	(0.36)	(0.20)
Current income taxes	**(1.20)**	(0.69)	(0.52)
Funds flow netbacks [1]	**31.57**	25.55	26.97

(1) Throughout this report, funds flow from operating activities is now calculated inclusive of asset retirement expenditures. All prior period calculations have been restated to reflect this change.

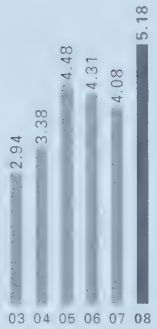
Funds Flow from Operating Activities (see note at the beginning of the MD&A)

In 2008, production volume increases of eight percent on a barrel of oil equivalent basis and increased revenue of 36 percent per barrel of oil equivalent more than offset the increase in cash operating costs during the year to produce a 34 percent increase in funds flow from operating activities to $106.91 million, compared to $79.84 million in 2007 and $82.89 million in 2006. The corresponding funds flow per diluted unit was $5.18 in 2008, a 27 percent increase from $4.08 in 2007, and a 20 percent increase from $4.31 in 2006. The diluted per unit statistics reflect a six percent increase in the weighted average outstanding units to 20.63 million in 2008 from 19.55 million in 2007. The 2007 weighted average outstanding units were also two percent higher than the 2006 amount of 19.24 million.

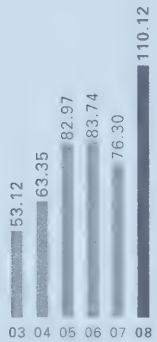
The following table summarizes the variances in funds flow from operating activities between 2007 and 2008. It demonstrates that the variance (increase in funds flow from operating activities) is caused mainly by an increase in overall realized commodity prices and increased production volumes, both of which were partially offset by increased operating expenses, increased royalties and increased realized risk management losses.

	$ Million	$ Per Diluted Trust Unit	Per Unit Percent Variance
Funds flow from operating activities – 2007	**79.84**	**4.08**	-
Price variance	56.83	2.76	68
Volume variance	17.16	0.84	21
Realized risk management losses	(19.98)	(0.97)	(24)
Royalties	(13.90)	(0.67)	(16)
Expenses:			
Production	(7.29)	(0.35)	(9)
General and administrative	(2.24)	(0.11)	(3)
Interest and financing charges	(1.84)	(0.09)	(2)
Asset retirement expenditures	0.24	0.01	-
Current taxes	(1.91)	(0.09)	(2)
Weighted average trust units – diluted	-	(0.23)	(6)
Funds flow from operating activities – 2008	**106.91**	**5.18**	**27**

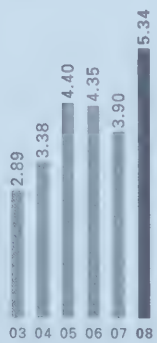
Funds Flow Per Unit
($/unit – diluted)



Cash Flows from Operating Activities
($ millions)



Cash Flows Per Unit
($/unit – diluted)



Depletion and Depreciation

In 2008, Zargon's depletion and depreciation provision increased 23 percent to $59.64 million, compared to $48.41 million in 2007 and $41.14 million in 2006. The higher charges reflect an increase of eight percent in production volumes and a 14 percent increase in the charge on a per barrel of oil equivalent basis. The primary reasons for the year-over-year expense increase on a per barrel of oil equivalent basis are due to the prior year's (2007) increased finding, development and acquisition costs, the financial impact of the conversion of exchangeable shares pursuant to the application of EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", increased production volumes and the capital asset additions resulting from the recent Rival and Newpact corporate acquisitions.

Depletion and depreciation charges calculated on a unit of production method are based on total proved reserves with a conversion of six thousand cubic feet of natural gas being equivalent to one barrel of oil. The 2008 depletion calculation includes $10.03 million of future capital expenditures to develop the Trust's reserves, but excludes $24.73 million of unproven properties relating to undeveloped land.

Zargon's depletion and depreciation, on a barrel of oil equivalent basis, increased 14 percent in 2008 to $17.61 from $15.49 in 2007 and $13.38 in 2006.

Accretion of Asset Retirement Obligations

For the year ended December 31, 2008, the non-cash accretion expense for asset retirement obligations was $2.18 million compared to $1.41 million in 2007 and $1.24 million in 2006. The year-over-year increases are due to changes in the estimated future liability for asset retirement obligations as a result of wells added through Zargon's drilling program inclusive of wells acquired/disposed of in the year and wells acquired with the recent Rival and Newpact corporate acquisitions. The significant assumptions used in this calculation are a credit adjusted risk-free rate of 7.5 percent, an inflation rate of two percent and the payments to settle the retirement obligations occurring over the next 40 years, with the majority of the costs being incurred after 2018. The estimated net present value of the total asset retirement obligation is $28.59 million as at December 31, 2008, based on a total future liability of $142.42 million.

Unit-Based Compensation

Unit-based compensation was $1.19 million in 2008, $0.52 million lower than the $1.71 million expense in 2007. The Trust generally grants unit rights on a quarterly basis. The decrease in the current year expense is as a result of increased forfeitures of unit rights, a decrease in volume of grants and a general decline in the valuation of new quarterly grants. Zargon will continue to use fair value methodologies for future unit rights grants. These non-cash expenses will be recurring charges in future years if Zargon continues to grant employees and directors trust unit rights.

The trust unit rights incentive plan allows the Trust to issue rights to acquire trust units to directors, officers, employees and other service providers. The Trust is authorized to issue up to 2.36 million unit rights; however, the number of trust units reserved for issuance upon exercise of the rights shall not exceed 10 percent of the aggregate number of issued and outstanding trust units of the Trust. The Plan allows for the holder of rights to either exercise the right based on the original grant price or on a modified price as calculated per the Plan of Arrangement. Unit right grant prices are set at the market closing price for the trust units on the date prior to the unit rights being issued. Trust unit rights granted under the Plan generally vest over a three-year period and expire approximately five years from the grant date.

Unrealized Foreign Exchange

Unrealized foreign exchange gains of $1.96 million in 2008 compare to gains of $0.23 million for 2007. Gains and losses result from translations of Zargon's US subsidiaries into Canadian dollars at rates as determined under the temporal method of converting foreign subsidiaries as required by Canadian GAAP. Relative to recent years, the extreme volatility in the US/Cdn dollar has created large non-cash translation gains as recorded in Zargon's income statement.

Future Income Taxes

The provision for the future tax expense for 2008 was $12.75 million when compared to a future tax recovery of $15.47 million in 2007 and a recovery of $2.82 million in 2006. Effectively, Zargon's future tax obligations are reduced as distributions are made from the Trust and, consequently, it is anticipated that Zargon's effective tax rate will continue to be low through to 2011. The 2007 prior year includes a second quarter recovery and a fourth quarter recovery relating to reductions in future federal and provincial income tax rates substantively enacted during the respective 2007 quarters. Additionally, the increase in future tax expense, when compared to the 2007 prior year, is significantly impacted by the increase in earnings before income taxes for the period as a result of previously mentioned items such as increased unrealized risk management gains.

On October 31, 2006, the Federal Government announced tax proposals pertaining to taxation of distributions paid by trusts and the personal tax treatment of trust distributions. Currently, the Trust does not pay tax on distributions as tax is paid by the unitholders. On June 12, 2007, the Federal Government enacted these tax proposals, which would have resulted in taxation of distributions at the Trust level at a rate of 31.5 percent effective January 1, 2011. Subsequent 2007 fourth quarter legislation has lowered this tax rate to 29.5 percent in 2011 and 28.0 percent beyond 2011 to assimilate recent corporate tax rate changes. Prior to June 2007, the Trust estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes to have a nil effective tax rate. Under the legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be approximately 28.0 percent. Until 2011, Zargon's future tax obligations are reduced as distributions are made from the Trust and, consequently, it is anticipated that Zargon's effective tax rate will continue to be low until that time.

Based on its assets and liabilities as at June 30, 2007, the quarter in which the tax proposals were substantively enacted, the Trust had estimated the amount of its temporary differences, which were previously not subject to tax, and had estimated the periods in which these differences will reverse. At June 30, 2007, the Trust estimated that $7.05 million net tax deductible temporary differences will reverse after January 1, 2011, which resulted in a reduction of the future tax liability by $2.22 million in the 2007

second quarter. The taxable temporary differences relate principally to the remaining tax pools attributed to the oil and gas properties being greater than their net book value. The year-over-year increase in the future tax expense reflects these prior year legislated adjustments.

On December 15, 2006, the Canadian Federal Department of Finance stated its intention to allow conversions of specified investment flow through ("SIFT") income trusts to a corporation without any adverse tax consequences to investors. On July 14, 2008, the Department of Finance released the draft legislative proposals to allow the conversion of these SIFT trusts into corporations. Zargon is currently reviewing and assessing this recent legislation and is considering its potential impact on the organization while Zargon's management develops its strategic plan beyond 2010, which is the effective date of the new SIFT tax rules.

On February 26, 2008, the Federal Government, in its Federal Budget, announced changes to the SIFT tax rules. The provincial component of the SIFT tax will be based on the provincial rates where the SIFT has a permanent establishment rather than using a 13.0 percent flat rate. As the tax rate change has not been substantively enacted, no future income tax rate benefit has been recorded in the financial statements.

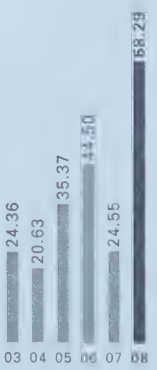
Non-Controlling Interest – Exchangeable Shares

According to the January 19, 2005 CICA pronouncement, EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", Zargon Energy Trust must reflect the exchangeable securities issued by its subsidiary, Zargon Oil & Gas Ltd. as either a non-controlling interest or debt on the consolidated balance sheet unless they meet certain criteria. The exchangeable shares issued by Zargon Oil & Gas Ltd., a corporate subsidiary of the Trust, are publicly traded and have an expiry term, which could be extended at the option of the Board of Directors. Therefore, these securities are considered, by EIC-151, to be transferable to third parties and to have an indefinite life. EIC-151 states that if these criteria are met, the exchangeable shares should be reflected as a non-controlling interest. Prior to 2005, these exchangeable shares were reflected as a component of unitholders' equity.

Accordingly, the Trust has increased its unitholders' equity and non-controlling interest for 2008 by $12.52 million (2007 – $6.64 million) on the Trust's consolidated balance sheets. Consolidated net earnings for 2008 have been reduced for net earnings attributable to the non-controlling interest by $10.10 million (2007 – $3.81 million). In accordance with EIC-151, and given the circumstances in Zargon's case, each redemption is accounted for as a step-purchase, which for 2008 resulted in an additional increase in property and equipment of $3.39 million (2007 – $8.82 million) and an increase in the future income tax liability of $0.97 million (2007 – $5.99 million). Funds flow from operating activities were not impacted by this change.

The cumulative impact to date of the application of EIC-151 has been to increase gross property and equipment by $55.15 million (for depletion impact see note 5 in the audited consolidated financial statements), unitholders' equity and non-controlling interest by $65.87 million, future income tax liability by $18.19 million and an allocation of net earnings to exchangeable shareholders of $28.91 million.

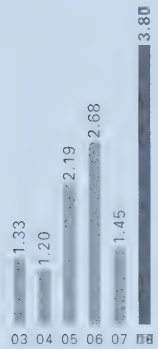
Net Earnings
($ millions)



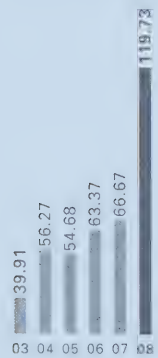
Net Earnings

Zargon's 2008 net earnings were $68.29 million, a 178 percent increase from $24.55 million in 2007. The 2006 net earnings were $44.50 million. The net earnings track the funds flow from operating activities for the respective periods modified by asset retirement expenditures and non-cash charges, which in 2008; includes depletion and depreciation, unrealized risk management gains/losses, future income tax expenses/recoveries, unit-based compensation and non-controlling interest. The primary reasons for the increase in net earnings when comparing the year ended 2008 to the 2007 prior year, are the previously mentioned items such as the increase in petroleum and natural gas revenue ($73.98 million) and the change in unrealized risk management gains ($61.17 million), offset by realized risk management losses ($19.98 million), increased depletion and depreciation expenses ($11.23 million), production costs ($7.29 million), royalties ($13.90 million), the related items of future tax expenses ($28.22 million) and

Net Earnings Per Unit
($/unit – diluted)



Net Capital Expenditures
($ millions)



increased non-controlling interest ($6.30 million). On a per diluted unit basis, 2008 net earnings were $3.80 compared to $1.45 in 2007 and $2.68 in 2006.

The 2008 net earnings were 64 percent of funds flow from operating activities, primarily reflecting the increase in unrealized risk management gains and the increase in future income tax expenses. The 2007 net earnings represented 31 percent of funds flow from operating activities compared to 54 percent of funds flow from operating activities in 2006.

Capital Expenditures

Total net capital expenditures (including net property acquisitions, cash and equity consideration and net debt assumed for corporate acquisitions) in 2008 of $119.73 million increased 80 percent from $66.67 million in 2007, reflecting the $59.85 million attributed to the corporate acquisitions of Rival and Newpact and $6.19 million attributed to other property acquisitions. Conversely, in 2008, Zargon completed a drilling program of 39 gross (35.9 net) wells compared to 53 gross (46.9 net) wells in 2007 and, as a result, drilling and completion expenditures decreased commensurately by 17 percent to $27.66 million. Of the total 2008 net capital expenditures, $19.68 million were expended on West Central Alberta, $26.03 million on Alberta Plains, $13.83 million on Williston Basin properties, $0.34 million was incurred corporately on leasehold improvements and administrative assets and $59.85 million was attributed to the corporate acquisitions.

Capital Expenditures

($ millions)	**2008**	2007	2006
Undeveloped land	**8.14**	7.49	5.25
Geological and geophysical (seismic)	**4.44**	4.41	3.34
Drilling and completion of wells	**27.66**	33.15	41.80
Well equipment and facilities	**13.11**	18.49	15.94
Exploration and development	**53.35**	63.54	66.33
Property acquisitions [1]	**6.41**	3.04	1.40
Property dispositions	**(0.22)**	(1.18)	(4.54)
Net property acquisitions/(dispositions) [1]	**6.19**	1.86	(3.14)
Corporate acquisitions assigned to property and equipment [2]	**59.85**	-	-
Total net capital expenditures excluding administrative assets [1] [2]	**119.39**	65.40	63.19
Administrative assets	**0.34**	1.27	0.18
Total net capital expenditures [1] [2]	**119.73**	66.67	63.37

(1) Amounts include capital expenditures acquired for cash and equity issuances.

(2) Amounts include capital expenditures acquired for cash, equity issuances, acquisition costs and net debt assumed on corporate acquisitions.

CORPORATE ACQUISITIONS

On January 23, 2008, a subsidiary of the Trust acquired all of the issued and outstanding common shares of Rival Energy Ltd. ("Rival"), a public oil and gas company, for consideration of $30.06 million. Consideration consisted of $16.40 million cash, the issuance of 573,300 Zargon trust units valued at $23.32 per unit and transaction costs of $0.29 million. Net debt of approximately $17.77 million was assumed as part of this acquisition.

The results of operations for Rival have been included in the consolidated financial statements since January 23, 2008.

On May 16, 2008, a subsidiary of the Trust acquired all of the issued and outstanding common shares of Newpact Energy Corp. ("Newpact"), a private oil and gas company, for consideration of $9.54 million. Consideration consisted of the issuance of 425,940 Zargon trust units valued at $22.04 per unit and transaction costs of $0.15 million. Net debt of approximately $2.49 million was assumed as part of this acquisition.

The results of operations for Newpact have been included in the consolidated financial statements since May 16, 2008.

SUBSEQUENT EVENTS

On February 27, 2009, Zargon entered into an Arrangement Agreement pursuant to which Zargon has agreed to make an offer to acquire all the issued and outstanding common shares of Masters Energy Inc. ("Masters") and assume approximately $13.20 million of net debt (including transaction costs) subject to a number of conditions. Pursuant to the Arrangement Agreement, Masters shareholders will have the option of receiving 0.120 Zargon trust units, up to a maximum of 1.49 million trust units, or $1.83 for each Masters common share, up to an aggregate maximum of $5.70 million in cash.

LIQUIDITY AND CAPITAL RESOURCES

In 2008, the summation of the funds outflows pertaining to the net capital expenditure program ($119.73 million) and the cash distributions to unitholders ($39.09 million) exceeded the summation of the funds inflows coming from the funds flow from operating activities ($106.91 million) plus the issuance of trust units ($25.08 million) by $26.83 million.

Zargon's financing philosophy and the three sources of funding are as follows:

- Internally generated funds flow from operating activities provides the basic level of funding for the Trust's annual capital expenditures program and for distributions to unitholders.
- Debt may be utilized for acquisitions or to expand capital programs when it is deemed appropriate. As at December 31, 2008 the Trust had $180 million in syndicated committed credit facilities of which $101.90 million or 57 percent of these facilities are unutilized.
- New equity, if available and if on favourable terms, can be utilized for acquisitions or to expand capital programs.

The volatility of oil and natural gas prices, the uncertainty relating to Alberta royalties and Canadian income trust tax rules and recent global economic concerns have partially restricted the oil and natural gas industry's ability to attract new capital from debt and equity markets. Zargon's historically conservative strategy of maintaining a relatively low cash distribution to funds flow ratio and conservative debt levels should enable Zargon to maintain its capital and distribution programs during periods of limited access to debt and equity capital.

Cash Distributions Analysis

($ millions)	**2008**	2007	2006
Cash flows from operating activities	**110.12**	76.30	83.74
Net earnings	**68.29**	24.55	44.50
Actual cash distributions paid or payable relating to the period	**(39.09)**	(36.70)	(35.90)
Excess of cash flows from operating activities over cash distributions paid	**71.03**	39.60	47.84
Excess (shortfall) of net earnings over cash distributions paid	**29.20**	(12.15)	8.60

Management monitors the Trust's distribution policy with respect to forecasted net cash flows, debt levels and capital expenditures. Zargon's cash distributions are discretionary to the extent that these distributions do not cause a breach of the financial covenants under Zargon's credit facilities and to the extent the Trust (non-consolidated) is not taxable. As a crude oil and natural gas Trust, Zargon's reserve base is depleted with production and therefore, Zargon relies on ongoing exploration, development and acquisition activities to replace reserves and to offset production declines. The success of these exploration, development and acquisition capital programs, along with commodity price fluctuations are the main factors influencing the sustainability of the Trust's distributions.

For the year ended December 31, 2008, cash flows from operating activities (after changes in non-cash working capital) of $110.12 million exceeded cash distributions of $39.09 million. This was consistent with the year ended December 31, 2007, in which cash flows from operating activities (after changes in non-cash working capital) of $76.30 million exceeded cash distributions of $36.70 million.

For the year ended December 31, 2008, cash distributions of $39.09 million were exceeded by net earnings of $68.29 million Net earnings include significant non-cash charges ($39.52 million in 2008) that do not impact cash flows. For the year ended December 31, 2007, cash distributions of $36.70 million exceeded net earnings of $24.55 million. Net earnings also include fluctuations in future income taxes due to changes in tax rates and tax rules. In addition, other non-cash charges such as depletion and depreciation are not a good proxy for the cost of maintaining Zargon's productive capacity given the natural declines associated with crude oil and natural gas assets. In the instances where distributions exceed net earnings, a portion of the cash distribution paid to unitholders may represent an economic return of the unitholders' capital.

For the year ended December 31, 2008, cash distributions and net capital expenditures totalled $158.82 million ($134.91 million excluding the $23.91 million of equity issuances attributed to corporate and property acquisitions), which was $48.70 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $110.12 million. For the year ended December 31, 2007, cash distributions and net capital expenditures totalled $103.37 million, which was $27.06 million higher than the cash flows from operating activities (after changes in non-cash working capital) of $76.30 million. Zargon relies on access to debt and capital markets to the extent cash distributions and net capital expenditures exceed cash flows from operating activities (after changes in non-cash working capital). Over the long term, Zargon expects to fund cash distributions and capital expenditures with its cash flows from operating activities; however, it will continue to fund acquisitions and growth through additional debt and equity issuances. In the crude oil and natural gas industry, because of the nature of reserve reporting, the natural reservoir declines and the risks involved in capital investment, it is not possible to distinguish between capital spent on maintaining productive capacity and capital spent on growth opportunities. Therefore, maintenance capital is not disclosed separately from development capital spending.

During the year ended December 31, 2008, Zargon has maintained a monthly distribution of $0.18 per trust unit.

Capital Sources and Uses

($ millions)	**2008**	2007	2006
Funds flow from operating activities [1]	**106.91**	79.84	82.89
Change in bank debt	**20.71**	26.83	19.70
Issuance of trust units	**25.08**	2.13	4.02
Cash distributions to unitholders	**(39.09)**	(36.70)	(35.90)
Changes in working capital and other	**6.12**	(5.43)	(7.34)
Total capital sources	**119.73**	66.67	63.37

(1) Throughout the report, funds flow from operating activities is now calculated inclusive of asset retirement expenditures. All prior period calculations have been restated to reflect this change.

Funds Flow from Operating Activities

It is anticipated that Zargon's 2009 exploration and development capital budget and cash distributions to unitholders will be financed through the Trust's funds flow from operating activities and its credit facilities. Funds flow is partially influenced by factors that the Trust cannot control, such as commodity prices, the US/Canadian dollar exchange rates and interest rates. Zargon's 2009 estimated sensitivity to moderate fluctuations in these key business parameters is shown in the accompanying table.

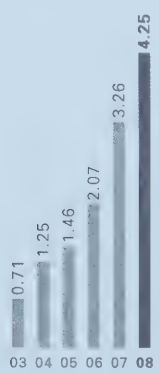
Funds Flow Sensitivity Summary

	Change in 2009 Funds Flow ($ millions)	($/unit)
Change of $1.00 US/bbl in the price of WTI oil	1.01	0.05
Change in oil production of 100 bbl/d	1.99	0.09
Change of $0.10 US/mcf in the price of NYMEX natural gas	0.66	0.03
Change in natural gas production of one mmcf/d	1.79	0.08
Change of $0.01 in the $US/$Cdn exchange rate	1.42	0.07

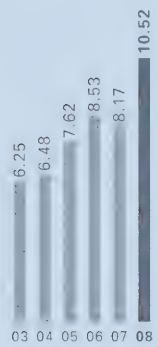
Bank Debt

On January 31, 2008, in conjunction with its corporate acquisition of Rival Energy Ltd., Zargon amended its syndicated committed credit facilities, which resulted in an increase in the available facilities and borrowing base to $150 million from the previous amount of $120 million. On July 28, 2008, Zargon further amended and renewed these syndicated committed credit facilities, which resulted in an increase in the available facilities and borrowing base to $180 million from the previous amount of $150 million. In conjunction with this amendment and renewal, Zargon has added another major Canadian based financial institution to its existing banking syndicate, bringing the syndicate to three major Canadian based institutions. These facilities consist of a $170 million tranche available to the Canadian borrower and a US$8 million tranche available to the US borrower. A $300 million demand debenture on the assets of the subsidiaries of the Trust has been provided as security for these facilities. The facilities are fully revolving for a 364-day period with the provision for an annual extension at the option of the lenders and upon notice from Zargon's management. The next renewal date is July 28, 2009. Should the facilities not be renewed, they convert to one year non-revolving term facilities at the end of the revolving 364-day period. Repayment would not be required until the end of the non-revolving term and, as such, these facilities have been classified as long term debt. These expanded facilities continue to be available for general corporate purposes and the potential acquisition of additional oil and natural gas properties such as those most recently acquired through the corporate acquisitions of Rival Energy Ltd. and Newpact Energy Corp.

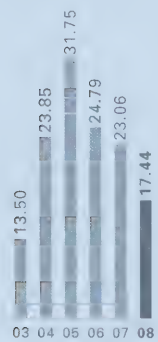
Net Debt
($/unit)



Unitholders' Equity
($/unit)



Zargon Year End Trust Unit Price
($/unit)



At December 31, 2008, bank debt was $77.58 million, an increase of $20.71 million from the prior year end bank debt amount of $56.87 million. The increase in bank debt was primarily attributed to the corporate acquisitions of Rival Energy Ltd. and Newpact Energy Corp. Zargon reviews its compliance with its bank debt covenants on a quarterly basis and has no violations as at December 31, 2008.

Zargon's debt net of working capital (excluding unrealized risk management assets/liabilities and future income taxes) of $87.71 million at December 31, 2008 was equivalent to 82 percent of the 2008 funds flow from operating activities of $106.91 million. At December 31, 2007, the debt net of working capital (excluding unrealized risk management assets/liabilities and future income taxes) was $63.76 million, equivalent to 80 percent of the 2007 funds flow from operating activities of $79.84 million.

Equity

At March 9, 2009, Zargon had 18.591 million trust units and 1.850 million exchangeable shares outstanding. Assuming full conversion of exchangeable shares at the current effective exchange ratio of 1.46953, there would be 21.310 million trust units outstanding at this date. Pursuant to the trust unit rights incentive plan, there are currently an additional 1.520 million trust unit incentive rights issued and outstanding.

During 2008, 15.101 million Zargon trust units traded on the Toronto Stock Exchange with a high trading price of $26.84 per unit, a low of $12.30 per unit and a closing price of $17.44 per unit. The 2008 trading statistics show a 118 percent year-over-year increase in trading volume and a 24 percent decrease in the closing unit price. Zargon's market capitalization (including the market value of exchangeable shares) at year end 2008, was approximately $369 million, compared to approximately $456 million at the end of 2007.

Segmented Geographic Information

During 2008, approximately 88 percent (2007 – 86 percent) of Zargon's combined petroleum and natural gas revenue came from Western Canadian (Alberta, Saskatchewan and Manitoba) properties, with the remaining 12 percent (2007 – 14 percent) of revenues generated in the United States (North Dakota). This shift in weighting is due to additional revenues generated from the Rival and Newpact corporate acquisitions which both were comprised of only Canadian oil and natural gas properties.

OFF BALANCE SHEET ARRANGEMENTS

The Trust has no guarantees or off balance sheet arrangements, except for letters of credit which have been issued in the normal course of business of approximately $0.52 million as at December 31, 2008.

RELATED PARTY TRANSACTIONS

During the year, the Trust paid $0.05 million (2007 – $0.05 million) for vehicle leases to a company owned by a Board member and $0.23 million (2007 – $0.07 million) for legal services to a law firm in which a Board member is a partner. All amounts were based on normal commercial terms and conditions.

CONTRACTUAL OBLIGATIONS

Zargon has certain contractual obligations relating to the lease of head office space and natural gas transportation sales contracts that extend for longer than one year as set out in the table below:

($ millions)	Total	2009	2010 to 2011	2012 to 2013	Thereafter
Head office lease and other	5.51	1.81	2.95	0.75	-
Natural gas transportation sales contracts	0.48	0.38	0.09	0.01	-
Total	5.99	2.19	3.04	0.76	-

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make judgments and estimates that affect the financial results of the Trust. Zargon's management reviews its estimates regularly, but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The critical estimates are discussed below:

Petroleum and Natural Gas Reserves

All of Zargon's petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101 ("NI 51-101"). The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Trust expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices.

Full Cost Accounting

Zargon follows the full cost method of accounting for petroleum and natural gas operations as outlined in Canadian Institute of Chartered Accountants ("CICA") accounting guideline "Oil and Gas Accounting – Full Cost" (AcG-16). Under this accounting method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Capitalized costs, as well as the estimated future expenditures to develop proved reserves, are depleted using the unit-of-production method based on estimated proved oil and natural gas reserves.

In applying the full cost method, Zargon calculates a ceiling test on a quarterly basis to ensure that the net carrying value of petroleum and natural gas assets does not exceed the estimated undiscounted future net cash flow from production of proved reserves. Accordingly, the Trust must base this calculation of future net cash flow on estimated forecasted sales prices, costs and regulations in effect at the period end. AcG-16 limits the carrying value of petroleum and natural gas properties to their fair value. The fair value is equal to estimated future cash flow from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate.

Asset Retirement Obligations

Zargon follows CICA Section 3110, "Asset Retirement Obligations", which requires liability recognition for retirement obligations associated with the Trust's property, plant and equipment. Under this policy, the Trust is required to provide for future removal and site restoration costs. The Trust must estimate these costs in accordance with existing laws, contracts or other policies and must also estimate a credit adjusted risk-free rate and inflation rate in this calculation. These estimated costs are charged to earnings and the appropriate liability account over the expected life of the asset. When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

Income Tax Accounting

The determination of the Trust's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS

As of January 1, 2008, the Trust adopted two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which replaced Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the disclosure of the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

As of January 1, 2008, the Trust adopted the new CICA Section 1535 "Capital Disclosures", which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements.

The Trust has identified new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Trust:

As of January 1, 2009, Zargon will be required to adopt the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard is not expected to have a material impact on Zargon's consolidated financial statements.

In December 2008, the CICA issued Section 1582 "Business Combinations", which will replace CICA Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from the non-current assets in the purchase price allocation. Section 1582 will be effective for the Trust on January 1, 2011 with prospective application. The Trust is currently evaluating the impact of the adoption of the new Section on its consolidated financial statements.

In December 2008, the CICA issued Sections 1601 "Consolidated Financial Statements", and 1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will be effective for the Trust on January 1, 2011. The Trust is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As Zargon will be required to report its results in accordance with IFRS starting in 2011, the Trust is assessing the potential impacts of this changeover and developing its plan accordingly. Zargon has enlisted an independent consulting firm to assist with the assessment and planning of this project. To date Zargon management, with the assistance of an independent consulting firm, has performed an analysis of key differences between Canadian GAAP as it pertains to Zargon and IFRS. Zargon's internal steering committee is in the process of planning the steps required to achieve the proper implementation of IFRS.

Design and Evaluation of Internal Control over Financial Reporting and Disclosure Controls and Procedures

Zargon is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" and is required to make specific disclosures with respect to NI 52-109 as follows:

- The Trust has designed and evaluated the effectiveness of Disclosure Control and Procedures ("DC&P"). The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have concluded that DC&P are designed appropriately and are operating effectively as at December 31, 2008.
- The Trust has designed and evaluated the effectiveness of Internal Controls over Financial Reporting ("ICFR"). The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have concluded that the ICFR are designed appropriately and are operating effectively as at December 31, 2008.
- The Trust reports that no changes were made to ICFR during 2008 that have materially affected, or are reasonably likely to materially affect the Trust's ICFR.
- The Trust has no interests in proportionately consolidated entities or variable interest entities other than Oil and Gas Joint Ventures. Accordingly, the scope of the design of DC&P and ICFR have not been limited to exclude controls, policies and procedures with respect to proportionately consolidated entities or variable interest entities. The scope of the design of DC&P and ICFR have not been limited to exclude controls, policies and procedures with respect to any businesses that Zargon has acquired during 2008.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

BUSINESS RISKS AND OUTLOOKS

Business Risks

Zargon's external business risks arise from the uncertainty of oil and natural gas pricing, the uncertainty of interest and exchange rates, environmental and safety issues and financial and liquidity considerations. Additional risks arise from the production performance of existing properties (including natural decline), the changes in tax, royalty and other regulatory standards and uncertain results from capital expenditure programs.

Oil and natural gas prices may fluctuate widely in response to many factors, such as global and North American supply and demand, economic conditions, weather conditions, political stability, the supply and price of imported oil and liquefied natural gas, production and storage levels of North American natural gas and government regulations. Zargon attempts to minimize pricing and currency exchange uncertainty with a risk management program that encompasses a variety of financial instruments. These could include forward sales of oil and natural gas production (either through financial derivative transactions such as swaps or by physical contracts), put options on both oil and natural gas, costless collars (in which some potential high price gain is given up in return for potential low price support) and US dollar currency risk management transactions in different forms for up to 30 percent of its oil and natural gas production volumes. In general, the Trust seeks to use strategies that allow minimum price expectations to be met in order that distributions and capital programs can be funded. This strategy is designed mainly to protect the Trust against periods of unusually low commodity prices and, by its nature, is likely to produce significant risk management losses when prices are unusually high.

Environmental and safety risks are mitigated through compliance with provincial and federal environmental and safety regulations by maintaining adequate insurance and by adopting appropriate emergency response and employee safety procedures.

The Trust is subject to a broad range of laws and regulatory requirements. Changes in government regulations, including reporting requirements, income tax laws, operating practices, environmental protection requirements and royalty rates can have a significant impact on Zargon. Although Zargon has no control over these regulatory risks, the Trust actively monitors changes, participates in industry organizations and, when required, engages the assistance of third party experts to assess the impact of such changes on the Trust's financial and operating results.

Financial and liquidity risks are reduced by limiting debt financing to self-imposed debt to funds flow guidelines. Zargon maintains a low cash distribution to funds flow from operating activities ratio to ensure funding is available for capital programs to sustain per unit production and reserves. Access to capital markets, if required for additional financing by either debt or equity issuances, is dependent upon maintaining strong performance and relationships with investors. A substantial portion of the Trust's accounts receivable are with companies in the oil and gas industry and are subject to normal industry credit risks. Management regularly monitors the aging of receivable balances to mitigate this risk. With respect to financial instruments utilized for risk management purposes, the Trust partially mitigates associated credit risk by limiting transactions to counterparties with investment grade credit ratings.

Changes to the Canadian income trust tax rules after 2010 and the Alberta government's January 1, 2009 royalty changes may have negatively impacted the Canadian oil and gas trust industry's access to new capital from debt and equity markets in the future.

Recent global credit issues arising from deteriorating credit markets may also have negatively impacted overall access to new capital from debt and equity markets in the near future. Management believes that the 2008 amendments to its credit facilities provide Zargon reasonable capacity for its operations.

Zargon actively manages the risks of its capital programs and reserves by concentrating drilling and subsequent development activities in areas where it has demonstrated proven technical capabilities and understanding. Zargon's capital budget is managed to limit exposure so that significant capital is not risked on any one project or concept.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases.

In 2008 the Federal Government released its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as "ecoACTION", which includes the Regulatory Framework for Air Emissions, and the Alberta Government has also introduced legislation regarding greenhouse gas emissions.

On March 8, 2007, the Alberta government introduced legislation to reduce greenhouse gas emission intensity. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases per year must reduce their emissions intensity by 12 percent over the average emissions levels of 2003, 2004 and 2005; if they are not able to do so, these facilities will be required to pay $15 per tonne for every tonne above the 12 percent target, beginning on July 1, 2007. At this time, the Trust has determined that there is currently no impact of this legislation on Zargon's existing facilities ownership.

Although Zargon is not a large emitter of greenhouse gases, the Trust continues to monitor developments in this area. Although environmental legislation is evolving in a manner which could result in stricter standards and enforcement, larger fines and liability, and potentially increased capital expenditures and operating costs, at this time it is not possible to predict the impact of these requirements on the Trust and its operations and financial condition.

Alberta Royalty and Tax Regime

On February 16, 2007, the Alberta Government announced that a review of the Province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coalbed methane, would be conducted by a panel of experts with the assistance of individual Albertans and key stakeholders. On September 18, 2007, the Royalty Review Panel delivered its final report and recommendations to the Government of Alberta. The report titled "Our Fair Share", recommended significant increases to royalties levied on natural gas, conventional oil and oil sands produced in Alberta. On October 25, 2007, the Alberta Government released details of its planned implementation of the final Royalty Review Panel report, titled "The New Royalty Framework" ("NRF"). Zargon has reviewed the modifications proposed by the Government of Alberta to its royalty program, which is scheduled to take effect on January 1, 2009, and provides the following observations:

- Currently, approximately 31 percent of Zargon's production is from properties located outside Alberta and is therefore not affected by the NRF.
- Royalties determined under the NRF will be determined based on commodity prices, well productivity and depth of wells. A significant portion of Zargon's wells are lower productivity wells that, on a relative basis, are less impacted by the NRF than higher productivity wells.
- The NRF will have a negative impact on the economics of Zargon's ongoing natural gas exploration programs, which target moderate rate natural gas wells in our West Central Alberta and Alberta Plains

core areas. Although, at the recent lower commodity price levels, the impact of the NRF on Zargon's royalties has been reduced.

On March 3, 2009, the Government of Alberta announced a three-point incentive program to stimulate new and continued economic activity in Alberta, which included a drilling royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program. The new well incentive program will apply to wells commencing production of conventional oil and natural gas between April 1, 2009 and March 31, 2010 and provides for a maximum five percent royalty rate for the first twelve months of production, up to a maximum of 50,000 barrels of oil or 500 million cubic feet of natural gas. Zargon's management is assessing the impact of this recent announcement on its operations.

Outlook

With a strong balance sheet, 419 thousand net acres of undeveloped land and a promising project inventory that has been augmented by the 2008 Rival and Newpact corporate acquisitions, Zargon continues to be well positioned to meet its value-creating objectives in 2009 and beyond. At this time in early March 2009, future commodity markets indicate that in 2009 both oil and natural gas prices will be considerably lower than their 2008 averages. Furthermore, there is evidence that some of the upward pressures on the industry's input costs have been alleviated, allowing for improved capital program efficiencies for field activities and for property and corporate acquisitions.

Although the recent world-wide economic crisis, depressed commodity prices, changes to the Canadian income trust tax rules after 2010 and the Alberta Government's 2009 royalty changes have negatively impacted our industry, we are optimistic about Zargon's long term value-seeking strategy in this evolving business. Consistent with its history, Zargon will continue to adhere to a focused strategy of exploring and exploiting its existing asset base while executing accretive acquisitions which will be funded by debt or equity issuances.

SELECTED QUARTERLY INFORMATION

($ millions, except per unit amounts)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas revenue	**41.25**	**66.35**	**69.66**	**52.24**	41.13	36.64	39.21	38.53
Funds flow from operating activities	**20.40**	**29.75**	**32.02**	**24.75**	20.10	17.38	20.56	21.80
Per unit – diluted	**0.97**	**1.42**	**1.55**	**1.23**	1.02	0.88	1.05	1.12
Cash flows from operating activities	**24.84**	**33.58**	**36.44**	**15.27**	14.23	24.64	19.09	18.35
Per unit – diluted	**1.18**	**1.60**	**1.76**	**0.76**	0.72	1.25	0.97	0.94
Net earnings	**28.19**	**40.05**	**(4.51)**	**4.56**	2.20	5.50	11.63	5.22
Per unit – diluted	**1.53**	**2.20**	**(0.25)**	**0.26**	0.13	0.32	0.68	0.31
Cash distributions	**9.96**	**9.87**	**9.71**	**9.55**	9.21	9.19	9.17	9.12
Per unit – diluted	**0.54**	**0.54**	**0.54**	**0.54**	0.54	0.54	0.54	0.54
Net capital expenditures	**16.37**	**17.47**	**26.28**	**59.61**	18.35	16.43	10.97	20.93
Total assets	**447.60**	**426.63**	**418.88**	**396.90**	343.11	327.54	324.96	324.31
Bank debt	**77.58**	**74.95**	**85.45**	**92.18**	56.87	44.10	46.74	37.68

FOURTH QUARTER 2008 RESULTS

During the fourth quarter of 2008, Zargon's petroleum and natural gas revenues of $41.25 million were 38 percent lower than the previous quarter's revenues. Production for the 2008 fourth quarter of 9,410 barrels of oil equivalent per day was one percent higher than the 2008 third quarter's production of 9,340 barrels of oil equivalent per day. Compared to the previous quarter, oil production increased two percent to 4,434 barrels per day as Williston Basin and Alberta Plains (Taber area) wells were placed on production. Fourth quarter natural gas production remained even with the previous quarter at 29.86 million cubic feet per day as recently drilled West Central Alberta and Alberta Plains natural gas wells were tied-in. Average field prices received during the fourth quarter, before the impact of financial risk management contracts, were $53.87 per barrel for oil and liquids and $6.99 per thousand cubic feet for natural gas, a 51 percent and a 14 percent decrease, respectively, compared to the 2008 third quarter prices. Zargon's field price differential for its blended 30 degree API crude oil stream decreased to a $9.34 per barrel discount to the Edmonton reference crude oil price, a 28 percent decrease from Zargon's average differential of $12.99 per barrel for the first nine months of 2008.

Funds flow from operating activities was $20.40 million in the fourth quarter, a decrease of 31 percent or $9.35 million from the prior quarter. A comparative analysis of the primary factors that caused this quarter-over-quarter increase is as follows:

- Fourth quarter 2008 petroleum and natural gas revenues of $41.25 million were 38 percent lower than the 2008 third quarter revenues of $66.35 million. This revenue decrease was a result of the 38 percent decrease in average realized commodity prices.
- Realized risk management gains were $4.11 million in the fourth quarter of 2008, a $12.13 million change over the prior quarter's $8.02 million of realized risk management losses. The primary reason for the fourth quarter net gain related to gains ($1.08 million) being realized on financial natural gas risk management contracts and gains ($3.03 million) realized on financial oil risk management contracts. Oil and natural gas prices continued to weaken during the 2008 fourth quarter.
- Royalties for the fourth quarter were $8.43 million, a decrease of $5.03 million from the prior quarter. The average royalty rate for the quarter of 20.4 percent was consistent with the 20.3 percent rate from the 2008 third quarter.
- Production expenses were $10.92 million for the quarter, a $0.52 million or five percent increase from the third quarter of 2008. On a per barrel of oil equivalent basis, production expenses increased four percent to $12.61 in the fourth quarter of 2008 compared to $12.10 in the prior quarter. This quarterly incline in per unit costs was due in part to increased levels of workovers and seasonal repairs and maintenance costs.
- General and administrative expenses increased in the fourth quarter by $0.35 million over the third quarter of 2008. This is a 13 percent increase compared to the prior quarter and is primarily due to costs related to the expansion of Zargon's technical staff and consultants.
- Interest and financing charges in the fourth quarter were $0.97 million, a decrease of 23 percent or $0.28 million from the prior quarter. The average debt level for the fourth quarter decreased eight percent to $89.44 million compared to $97.02 million in the third quarter of 2008, resulting in decreased debt servicing charges. Zargon's interest borrowing rates also declined during the quarter as the Bank of Canada lowered rates.
- Current income taxes of $1.41 million were $0.71 million higher than the 2008 third quarter taxes. The increase was primarily due to increased withholding taxes on dividends declared from Zargon's US subsidiary to its parent corporation.

- Asset retirement expenditures reflect the actual amounts incurred to abandon and reclaim unutilized non-producing wells. These asset retirement expenditures totalled $0.25 million in the 2008 fourth quarter and increased from the prior quarter amount of $0.15 million. The difference between accretion expenses (as reflected on the income statements) and asset retirement expenditures are a result of the timing differences between the estimating of future expenses and the actual incurrence of actual expenses during the period.

Net earnings for the quarter decreased $11.86 million to $28.19 million, a 30 percent decrease compared to the third quarter 2008 net earnings of $40.05 million. Net earnings track the funds flow from operating activities for the respective periods modified by asset retirement expenditures and non-cash charges, which included the following for the fourth quarter of 2008:

- Unit-based compensation expense increased by $0.03 million during the fourth quarter of 2008 to $0.35 million, a nine percent increase from the third quarter. The increase is a result of additional unit rights granted in the fourth quarter of 2008.

- Depletion and depreciation expense increased by $0.13 million to $15.43 million in the 2008 fourth quarter. The additional expense resulted from the increased production in the fourth quarter and the use of an updated depletion and depreciation rate of $17.82 per barrel of oil equivalent, compared to the prior quarter's $17.80 per barrel of oil equivalent charge.

- Unrealized risk management gains in the 2008 fourth quarter of $34.29 million were 26 percent lower than the third quarter gains of $46.58 million. These unrealized gains result from "marking-to-market" financial risk management contracts at each period end. During the fourth quarter, unrealized risk management gains resulted from weaker commodity pricing at the December 31, 2008 mark-to-market date when compared to the third quarter September 30, 2008 mark-to-market date. In particular, lower year end futures oil pricing resulted in unrealized risk management contract oil gains of $34.87 million slightly offset by natural gas contract losses of $0.14 million and foreign exchange contract losses of $0.44 million. The realization and the expiry of certain financial natural gas and oil contracts also affect the mark-to-market amounts.

- The provision for accretion of asset retirement obligations for the 2008 fourth quarter was $0.58 million, relatively even with the prior quarter expense. The small quarter-over-quarter increase is due to changes in the estimated future liability for asset retirement obligations as a result of wells added through Zargon's drilling program inclusive of wells acquired/disposed of in the quarter and changes resulting from revisions to the timing and the amounts of the original estimates of undiscounted cash flows.

- Unrealized foreign exchange gains of $1.92 million in the 2008 fourth quarter compare to gains of $0.03 million for the prior quarter. Gains and losses result from translations of Zargon's US subsidiaries into Canadian dollars at rates as determined under the temporal method of converting foreign subsidiaries as required by Canadian GAAP. Relative to the closing foreign exchange rates at September 30, 2008 the significant decrease in the value of the Canadian dollar relative to the US dollar has created large non-cash translation gains as recorded in Zargon's income statement for the fourth quarter.

- The future income tax expense was $8.24 million during the quarter compared to a future income tax expense of $14.27 million from the third quarter of 2008. The decreased future income tax expense in the 2008 fourth quarter was due to a significant decrease of earnings before taxes of $41.91 million compared to the third quarter earnings before taxes of $61.03 million. In summary, the fourth quarter decrease in net earnings was primarily a result of lower commodity prices creating lower operating results and also from lower non-cash unrealized risk management contract gains in the quarter.

- Reduction in earnings due to non-controlling interests pertaining to exchangeable shares decreased to $4.07 million in the 2008 fourth quarter from $6.02 million in the third quarter. This was due to a decrease in net earnings before non-controlling interest in the fourth quarter.

Net capital expenditures were $16.37 million during the fourth quarter of 2008, a six percent decrease from the prior quarter amount of $17.47 million (which included $1.14 million of property acquisitions). During the fourth quarter, Zargon completed an extensive field capital program focused on Alberta Plains core area Bellshill Lake oil exploitation wells, West Central Alberta natural gas exploration locations and Williston Basin core area horizontal oil exploitation wells. During the fourth quarter of 2008, 13.9 net wells were drilled compared to 7.7 net wells in the third quarter of 2008.

Cash distributions to unitholders declared for the 2008 fourth quarter totalled $9.96 million ($0.18 per trust unit per month).

ADDITIONAL INFORMATION

Additional information regarding the Trust and its business operations, including the Trust's Annual Information Form for December 31, 2008, is available on the Trust's SEDAR profile at www.sedar.com.

MANAGEMENT'S REPORT

The consolidated financial statements of Zargon Energy Trust were prepared by management in accordance with Canadian generally accepted accounting principles. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

Management has designed and maintains a system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the financial statements reliably report the Trust's operations and that the Trust's assets are safeguarded. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

Ernst & Young LLP, an independent chartered accountant firm, was appointed by a resolution of the unitholders to audit the consolidated financial statements of the Trust and provide an independent opinion. They have conducted an independent examination of the Trust's accounting records in order to express their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management directors, has met with Ernst & Young LLP and management in order to determine that management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Audit Committee has reported its findings to the Board of Directors, who have approved the consolidated financial statements.

C.H. Hansen
President and Chief Executive Officer

B.C. Heagy
Executive Vice President and
Chief Financial Officer

Calgary, Canada
March 9, 2009

AUDITORS' REPORT

To the Unitholders of **Zargon Energy Trust**

We have audited the consolidated balance sheets of Zargon Energy Trust as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive income and accumulated earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 9, 2009

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ thousands)	2008	2007
ASSETS [note 6]		
Current		
Accounts receivable	**20,725**	21,668
Prepaid expenses and deposits	**1,162**	1,690
Unrealized risk management asset [note 12]	**29,641**	1,432
Future income taxes [note 13]	**-**	2,919
	51,528	27,709
Long term deposit	**1,612**	1,455
Unrealized risk management asset [note 12]	**4,745**	-
Goodwill	**2,969**	-
Property and equipment, net [note 5]	**386,746**	313,949
	447,600	343,113
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**28,687**	27,172
Cash distributions payable [note 19]	**3,326**	3,074
Unrealized risk management liability [note 12]	**724**	11,127
Future income taxes [note 13]	**8,553**	-
	41,290	41,373
Long term debt [note 6]	**77,581**	56,868
Unrealized risk management liability [note 12]	**281**	1,303
Asset retirement obligations [note 7]	**28,592**	21,184
Future income taxes [note 13]	**49,704**	40,177
	197,448	160,905
Commitments and contingencies [notes 6, 8, 12, 14 and 15]		
NON-CONTROLLING INTEREST		
Exchangeable shares [note 9]	**27,610**	20,730
UNITHOLDERS' EQUITY		
Unitholders' capital [note 8]	**120,650**	89,688
Contributed surplus [note 8]	**4,617**	3,714
Accumulated earnings	**257,104**	188,819
Accumulated cash distributions [note 19]	**(159,829)**	(120,743)
	222,542	161,478
	447,600	343,113

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

K.J. Harrison, Director

K.D. Kitagawa, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME AND ACCUMULATED EARNINGS

For the years ended December 31 ($ thousands, except per unit amounts)	2008	2007
REVENUE		
Petroleum and natural gas revenue	**229,494**	155,512
Unrealized risk management gain/(loss) [note 12]	**44,378**	(16,796)
Realized risk management gain/(loss) [note 12]	**(15,722)**	4,255
Royalties	**(46,644)**	(32,746)
	211,506	110,225
EXPENSES		
Production	**39,913**	32,620
General and administrative	**10,447**	8,209
Unit-based compensation [note 8]	**1,185**	1,705
Interest and financing charges [note 6]	**4,911**	3,071
Unrealized foreign exchange gain	**(1,958)**	(226)
Accretion of asset retirement obligations [note 7]	**2,183**	1,406
Depletion and depreciation	**59,638**	48,410
	116,319	95,195
EARNINGS BEFORE INCOME TAXES	**95,187**	15,030
INCOME TAXES [note 13]		
Current	**4,051**	2,143
Future (recovery)	**12,751**	(15,470)
	16,802	(13,327)
EARNINGS BEFORE NON-CONTROLLING INTEREST	**78,385**	28,357
Non-controlling interest – exchangeable shares [note 9]	**(10,100)**	(3,805)
NET EARNINGS AND COMPREHENSIVE INCOME	**68,285**	24,552
ACCUMULATED EARNINGS, BEGINNING OF YEAR	**188,819**	164,267
ACCUMULATED EARNINGS, END OF YEAR	**257,104**	188,819
NET EARNINGS PER UNIT [note 10]		
Basic	**3.79**	1.45
Diluted	**3.80**	1.45

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ thousands)	2008	2007
OPERATING ACTIVITIES		
Net earnings for the year	**68,285**	24,552
Add (deduct) non-cash items:		
Non-controlling interest – exchangeable shares	**10,100**	3,805
Unrealized risk management (gain)/loss	**(44,378)**	16,796
Depletion and depreciation	**59,638**	48,410
Accretion of asset retirement obligations	**2,183**	1,406
Unit-based compensation	**1,185**	1,705
Unrealized foreign exchange gain	**(1,958)**	(226)
Future income taxes (recovery)	**12,751**	(15,470)
Asset retirement expenditures	**(897)**	(1,140)
	106,909	79,838
Changes in non-cash operating working capital [note 16]	**3,215**	(3,535)
	110,124	76,303
FINANCING ACTIVITIES		
Advances of bank debt	**3,799**	26,831
Cash distributions to unitholders	**(39,086)**	(36,695)
Exercise of unit rights	**1,166**	2,127
Changes in non-cash financing working capital [note 16]	**252**	52
	(33,869)	(7,685)
INVESTING ACTIVITIES		
Additions to property and equipment	**(58,944)**	(67,850)
Proceeds on disposal of property and equipment	**220**	1,181
Corporate acquisitions (cash portion)	**(16,835)**	-
Long term deposit	**(157)**	-
Changes in non-cash investing working capital [note 16]	**(539)**	(1,949)
	(76,255)	(68,618)
NET CHANGE IN CASH DURING THE YEAR AND CASH, END OF YEAR	**-**	-

See supplemental cash flow information contained in note 17.

See accompanying notes to the consolidated financial statements.

December 31, 2008 and 2007
All amounts are stated in Canadian dollars unless otherwise noted.

1. STRUCTURE OF THE TRUST

On July 15, 2004, Zargon Oil & Gas Ltd. (the "Company") was reorganized into Zargon Energy Trust (the "Trust" or "Zargon") as part of a Plan of Arrangement (the "Arrangement"). Shareholders of the Company received one trust unit or one exchangeable share for each common share held. The unitholders of the Trust are entitled to receive cash distributions paid by the Trust. Holders of exchangeable shares are not eligible to receive cash distributions paid, but rather, on each payment of a distribution, the number of trust units into which each exchangeable share is exchangeable is increased on a cumulative basis in respect of the distribution. The Trust is an unincorporated open-end investment trust established under the laws of the Province of Alberta and was created pursuant to a trust indenture ("Trust Indenture").

The Trust's principal business activity is the exploration for and development and production of petroleum and natural gas in Canada and the United States ("US").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ materially from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies summarized below.

The consolidated financial statements include the accounts of Zargon Energy Trust, all of its subsidiaries and a partnership. All subsidiaries and the partnership are directly or indirectly owned and their operations are fully reflected in the consolidated financial statements.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas, and natural gas liquids is recognized when title and risks pass to the purchaser, normally at the plant gate which is the pipeline delivery point for natural gas and at the contracted delivery point for crude oil.

Joint Operations

The majority of the petroleum and natural gas operations of the Trust are conducted jointly with others, and accordingly, these consolidated financial statements reflect only the proportionate interests of the Trust in such activities.

Property and Equipment

The Trust follows the full cost method of accounting for its oil and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves are capitalized and accumulated in separate cost centres for Canada and the United States. Such costs include land acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs and costs of drilling and equipping wells.

Depletion and depreciation of petroleum, natural gas properties and equipment is computed using the unit of production method based on the estimated proved reserves of petroleum and natural gas before royalties determined by independent consultants. For purposes of this calculation, reserves are converted to common units on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil. A portion of the cost of petroleum and natural gas rights relating to undeveloped properties is excluded from the depletion calculation. Twenty percent of the year end balance of these costs is added to the depletion base each year. Proceeds on the disposal of petroleum and natural gas properties are applied against capitalized costs, with gains or losses not ordinarily recognized, unless such a disposal would result in a change in the depletion rate of 20 percent or more.

Depreciation of office equipment is provided using the declining balance method at an annual rate of 20 percent. Leasehold improvements are depreciated over the term of the lease.

Impairment Test

The Trust applies an impairment test to petroleum, natural gas properties and equipment costs on a quarterly basis or more frequently as events or circumstances dictate. This impairment test is performed on both the Canadian and US cost centres. An impairment loss exists when the carrying amount of the Trust's petroleum, natural gas properties and equipment exceeds the estimated undiscounted future net cash flows associated with the Trust's proved reserves (before royalties). If an impairment loss is determined to exist, the costs carried on the consolidated balance sheets in excess of the fair value of the Trust's proved and probable reserves plus the cost of unproved properties are charged to earnings. Reserves are determined pursuant to evaluation by independent engineers as dictated by National Instrument 51-101.

Goodwill

The Trust must record goodwill relating to a corporate acquisition when the total purchase price exceeds the fair value for accounting purposes of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year end or as events occur that could result in an indication of impairment. Impairment is recognized based on the fair value of the reporting entity (consolidated Trust) compared to the book value of the reporting entity. If the fair value of the consolidated Trust is less than the book value, impairment is measured by allocating the fair value of the consolidated Trust to the identifiable assets and liabilities as if the Trust had been acquired in a business combination for a purchase price equal to its fair value. The excess of the fair value of the consolidated Trust over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the book value of goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to earnings in the period in which it occurs.

Goodwill is stated at cost less impairment and is not amortized.

At December 31, 2008 an impairment test was performed and it was determined that there was no impairment to the goodwill balance.

Asset Retirement Obligations

Zargon recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit of production method based on proved reserves (before royalties). The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability.

Financial Instruments

Effective January 1, 2007, the Trust adopted the accounting requirements for CICA Handbook Sections 3855 "Financial Instruments – Recognition and Measurement" and 3865 "Hedges". Adjustments to the consolidated financial statements for 2007 were made on a prospective basis.

Derivative financial instruments are utilized to reduce commodity price risk associated with the Trust's production of oil and natural gas. The base prices for the commodities are sometimes denominated in US dollars and the Trust may also use such financial instruments to reduce the related foreign currency risk. Financial instruments may also be used from time to time to reduce interest rate risk on outstanding debt. The Trust does not enter into financial instruments for trading or speculative purposes.

The Trust follows a policy of using risk management instruments such as fixed price swaps, forward sales, puts and costless collars. The objective is to partially offset or mitigate the wide price swings commonly encountered in oil and natural gas commodities and in so doing protect a minimum level of cash flow in periods of low commodity prices.

The Trust considers these financial risk management contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes and, accordingly, for outstanding contracts not designated as hedges, an unrealized gain or loss is recorded based on the change in fair value ("mark-to-market") of the contracts at each reporting period end. These instruments have been recorded as unrealized risk management assets/liabilities in the consolidated balance sheets.

In the case of forward sales, the instrument can sometimes be satisfied by physical delivery. In the case of physical delivery, the payment/receipt is recorded as part of the normal revenue stream.

Foreign currency collar and swap agreements are utilized to manage the risk inherent in producing commodities whose price is based directly or indirectly on US dollars, using notional principal amounts equal to the projected monthly revenue from their sale. Payments or charges are calculated and paid according to the terms of the agreement, usually with monthly settlement.

The Trust had no interest rate financial instruments at December 31, 2008 and 2007.

Income Taxes

The Trust follows the liability method of tax allocation in accounting for income taxes. Under this method, the Trust records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability using income tax rates expected to apply in the periods in which these temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change is substantively enacted.

Foreign Currency Translation

The Trust uses the temporal method of foreign currency translation whereby the monetary assets and liabilities recorded in a foreign currency are translated into Canadian dollars at year end exchange rates, and non-monetary assets and liabilities at the exchange rates prevailing when the assets were acquired or liability incurred. Revenues and expenses are translated at the average rate of exchange prevailing during the year. Gains and losses on translation are included in the consolidated statements of earnings and comprehensive income and accumulated earnings.

Trust Unit Rights and Unit-Based Compensation

Under the Trust's unit rights incentive plan (the "Plan"), rights to purchase trust units are allowed to be granted to directors, officers, employees and other service providers at current market prices. The Plan allows for the exercise price of rights to be reduced in future periods by an amount that distributions exceed a stated return on assets. Under the fair value method of accounting for unit-based compensation the cost of the option is charged to earnings with an offsetting amount recorded in contributed surplus, based on an estimate from the fair value model. Forfeiture of rights are recorded as a reduction in expense in the period in which they occur.

Per Unit Amounts

Per unit amounts are calculated using the weighted average number of trust units outstanding during the year. Diluted per unit amounts are calculated using the treasury stock method to determine the dilutive effect of unit-based compensation. The Trust follows the treasury stock method, which assumes that the proceeds received from "in-the-money" trust unit rights and unrecognized future unit-based compensation expense are used to repurchase units at the average market rate during the year. Diluted per unit amounts also include exchangeable shares using the "if-converted" method, whereby it is assumed the conversion of the exchangeable shares occurs at the beginning of the reporting period (or at the time of issuance if later).

Measurement Uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the assessment of these assets for impairment are based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of changes in such estimates in future periods could be material.

Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the property and equipment balance.

Cash Distributions

The Trust declares monthly distributions of cash to unitholders of record on the last day of each calendar month. Pursuant to the Trust's policy, it will pay distributions to its unitholders subject to satisfying its financing covenants. Such distributions are recorded as distributions of equity upon declaration of the distribution.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 "Financial Instruments – Disclosures", Section 3863 "Financial Instruments – Presentation" and Section 1535 "Capital Disclosures". As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Trust's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

Capital Disclosures

This new guidance requires disclosure about the Trust's objectives, policies and processes for managing capital. These disclosures include a description of what the Trust manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Trust's management of capital, whether the requirements have been complied with, or consequence of non-compliance and an explanation of how the Trust is meeting its objectives for managing capital. In addition, quantitative disclosures regarding capital are required. Refer to note 11 "Capital Disclosures".

Financial Instruments – Disclosure and Presentation

Sections 3862 and 3863 establish standards for the disclosure and presentation of financial instruments during the reporting period.

Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. This Section requires disclosure of the significance of financial instruments on the Trust's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments.

The presentation requirements under 3863 are relatively unchanged from Section 3861. Refer to note 12, "Financial Instruments and Risk Management Contracts", for the additional disclosures under Section 3862.

Future Accounting Pronouncements

The Trust has identified new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact to the Trust:

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets". The new Section will be effective on January 1, 2009. This new guidance requires recognizing all goodwill and intangible assets in accordance with CICA Section 1000, "Financial Statement Concepts". Section 3064 will eliminate the current practice of recognizing items as assets that do not meet the Section 1000 definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062, as the new Section was only amended for intangible assets. The Trust is currently evaluating the impact of the adoption of this new Section, however does not expect a material impact on its consolidated financial statements.

In December 2008, the CICA issued Section 1582 "Business Combinations", which will replace CICA Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from the non-current assets in the purchase price allocation. Section 1582 will be effective for the Trust on January 1, 2011, with prospective application. The Trust is currently evaluating the impact of the adoption of the new Section on its consolidated financial statements.

In December 2008, the CICA issued Sections 1601 "Consolidated Financial Statements", and 1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will be effective for the Trust on January 1, 2011. The Trust is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. The Trust is currently reviewing the standards to determine the potential impact on its consolidated financial statements. The Trust, with the assistance of an independent consulting firm, has performed a diagnostic analysis that identifies differences between the Trust's current accounting policies and IFRS. At this time, the Trust is evaluating the impact of these differences and assessing the need for amendments to existing accounting policies in order to comply with IFRS.

4. ACQUISITIONS

Rival Energy Ltd.

On January 23, 2008, a subsidiary of the Trust acquired all of the outstanding shares of Rival Energy Ltd. ("Rival"), a public oil and gas company, for consideration of $30.06 million. Consideration consisted of $16.40 million cash, the issuance of 573,300 Zargon trust units valued at $23.32 per unit and acquisition costs of $0.29 million.

The results of operations for Rival have been included in the consolidated financial statements since January 23, 2008.

The acquisition was accounted for by the purchase method and the purchase price allocation is as follows:

Net Assets Acquired

($ thousands)	
Property and equipment	**54,065**
Goodwill	**2,969**
Working capital deficiency	**(854)**
Long term debt	**(16,914)**
Future income tax liability	**(5,443)**
Asset retirement obligations	**(3,767)**
Total net assets acquired	**30,056**

Consideration

($ thousands)	
Cash	**16,400**
Trust units issued	**13,369**
Acquisition costs	**287**
Total purchase price	**30,056**

Newpact Energy Corp.

On May 16, 2008, a subsidiary of the Trust acquired all of the outstanding shares of Newpact Energy Corp. ("Newpact"), a private oil and gas company, for consideration of $9.54 million. Consideration consisted of the issuance of 425,940 Zargon trust units valued at $22.04 per unit and acquisition costs of $0.15 million.

The results of operations for Newpact have been included in the consolidated financial statements since May 16, 2008.

The acquisition was accounted for by the purchase method and the purchase price allocation is as follows:

Net Assets Acquired

($ thousands)	
Property and equipment	**13,925**
Working capital deficiency	**(2,491)**
Future income tax liability	**(922)**
Asset retirement obligations	**(976)**
Total net assets acquired	**9,536**

Consideration

($ thousands)	
Trust units issued	**9,388**
Acquisition costs	**148**
Total purchase price	**9,536**

5. PROPERTY AND EQUIPMENT

	December 31, 2008		
($ thousands)	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum, natural gas properties and other equipment [1]	**667,944**	**282,949**	**384,995**
Leasehold improvements and office equipment	**3,380**	**1,629**	**1,751**
	671,324	**284,578**	**386,746**

	December 31, 2007		
($ thousands)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum, natural gas properties and other equipment [1]	535,850	223,780	312,070
Leasehold improvements and office equipment	3,107	1,228	1,879
	538,957	225,008	313,949

(1) As a result of shareholders redeeming exchangeable shares, property and equipment has cumulatively increased $55.15 million, $3.39 million relating to 2008, $8.82 million relating to 2007 and $42.94 million relating to prior years. The effect of these increases has resulted in additional depletion and depreciation expense of approximately $22.31 million, $5.59 million relating to 2008, $6.16 million relating to 2007 and $10.56 million relating to prior years.

At December 31, 2008, petroleum, natural gas properties and equipment include $24.73 million (2007 – $22.78 million) relating to undeveloped properties that have been excluded from the depletion calculation.

An impairment test calculation was performed on the Trust's petroleum, natural gas properties and equipment at December 31, 2008 in which the estimated undiscounted future net cash flows associated with the proved reserves exceeded the carrying amount of the Trust's petroleum, natural gas properties and equipment; consequently an impairment provision was not recorded. This impairment calculation was performed separately on both the Canadian and US cost centres.

The following table outlines benchmark prices used in the impairment test at December 31, 2008:

Year	WTI Crude Oil ($US/bbl)	Exchange Rate ($US/$Cdn)	WTI Crude Oil ($Cdn/bbl)	AECO Gas ($Cdn/gj)
2009	55.57	0.84	66.15	6.31
2010	64.77	0.84	77.11	7.28
2011	69.16	0.84	82.33	7.50
2012	70.62	0.84	84.07	7.39
2013	72.04	0.84	85.76	7.27
Thereafter (inflation %)	2.0%	0.84	2.0%	2.0%

Actual prices used in the impairment test were adjusted for commodity price differentials specific to Zargon.

6. LONG TERM DEBT

On July 28, 2008, Zargon amended and renewed its syndicated committed credit facilities, the result of which is an increase in the available facilities and borrowing base to $180 million. These facilities consist of a $170 million tranche available to the Canadian borrower and a US $8 million tranche available to the US borrower. A $300 million demand debenture on the assets of the subsidiaries of the Trust has been provided as security for these facilities. The facilities are fully revolving for a 364-day period with the provision for an annual extension at the option of the lenders and upon notice from Zargon's management. The next renewal date is July 28, 2009. Should the facilities not be renewed, they convert to one-year non-revolving term facilities at the end of the revolving 364-day period. Repayment would not be required until the end of the non-revolving term, and as such, these facilities have been classified as long term debt.

Interest rates fluctuate under the syndicated facilities with Canadian prime, US prime, and US base rates plus an applicable margin between zero basis points and 32.5 basis points, as well as with Canadian banker's acceptance and LIBOR rates plus an applicable margin between 97.5 basis points and 157.5 basis points. At December 31, 2008, $77.58 million (2007 – $56.87 million) had been drawn on the syndicated committed credit facilities bearing interest at Canadian prime (December 31, 2008 – 3.5 percent; December 31, 2007 – 6.0 percent) with any unused amounts subject to standby fees. In the normal course of operations Zargon enters into various letters of credit. At December 31, 2008, the approximate value of outstanding letters of credit totalled $0.52 million (2007 – $0.44 million). The letters of credit reduce the amount of Zargon's available credit facilities to $101.90 million at December 31, 2008 (2007 - $62.69 million).

7. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated by management based on Zargon's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. Zargon has estimated the net present value of its total asset retirement obligations to be $28.59 million as at December 31, 2008 (2007 – $21.18 million), based on a total future liability of $142.52 million (2007 – $101.88 million). These payments are expected to be made over the next 40 years with the majority of the costs being incurred after 2018. Commencing July 1, 2005, incremental asset retirement obligations are calculated using a revised credit adjusted risk-free rate of 7.5 percent. Asset retirement obligations prior to this period were calculated using a credit adjusted risk-free rate of 8.5 percent. An inflation rate of two percent used in the calculation of the present value of the asset retirement obligation remains unchanged.

The following table reconciles Zargon's asset retirement obligations:

	Year Ended December 31,	
($ thousands)	**2008**	2007
Balance, beginning of year	**21,184**	17,307
Adjustment to asset retirement obligations	**-**	2,911
Net liabilities incurred/acquired	**5,920**	851
Liabilities settled	**(897)**	(1,140)
Accretion expense	**2,183**	1,406
Foreign exchange	**202**	(151)
Balance, end of year	**28,592**	21,184

8. UNITHOLDERS' EQUITY

Pursuant to the Plan of Arrangement on July 15, 2004, 14.87 million units of the Trust and 3.66 million exchangeable shares (see note 9) of the Company were issued in exchange for all of the outstanding shares of the Company on a one-for-one basis.

The Trust is authorized to issue an unlimited number of voting trust units.

Trust Units

	December 31, 2008		December 31, 2007	
(thousands)	**Number of Units**	**Amount ($)**	Number of Units	Amount ($)
Balance, beginning of year	**17,076**	**89,688**	16,789	82,868
Unit rights exercised for cash	**69**	**1,166**	120	2,127
Unit-based compensation recognized on exercise of unit rights	**-**	**246**	-	466
Issued on corporate and property acquisitions	**1,045**	**23,910**	-	-
Issued on conversion of exchangeable shares	**289**	**5,640**	167	4,227
Balance, end of year	**18,479**	**120,650**	17,076	89,688

Trust Unit Rights Incentive Plan

The Trust has a unit rights incentive plan (the "Plan") that allows the Trust to issue rights to acquire trust units to directors, officers, employees and other service providers. The Trust is authorized to issue up to 2.36 million unit rights; however, the number of trust units reserved for issuance upon exercise of the rights shall not at any time exceed 10 percent of the aggregate number of the total outstanding units, including units issuable upon exchange of exchangeable shares of Zargon and other fully paid securities of Zargon entities exchangeable into units, which are the economic equivalent of units including full voting rights. At the time of grant, unit right exercise prices approximate the market price for the trust units. At the time of exercise, the rights holder has the option of exercising at the original grant price or the exercise price as calculated under the Plan (the "modified price"). The modified price is calculated by deducting from the grant price the amount by which monthly distributions, on a per unit basis, made by the Trust after the grant date exceed a monthly return of 0.833 percent of the Trust's recorded net book value of oil and natural gas properties. Rights granted under the Plan generally vest over a three-year period and expire approximately five years from the grant date. Zargon uses a fair value methodology to value the unit rights grants.

The following table summarizes information about the Trust's unit rights:

	December 31, 2008		December 31, 2007	
	Number of Unit Rights (thousands)	Weighted Average Exercise Price Initial and Modified ($/unit right)	Number of Unit Rights (thousands)	Weighted Average Exercise Price Initial and Modified ($/unit right)
Outstanding at beginning of year	1,488	26.41 / 24.60	1,208	26.32 / 24.73
Unit rights granted	445	22.65	522	25.36
Unit rights exercised	(69)	16.92	(120)	17.73
Unit rights cancelled	(210)	27.22	(122)	28.75
Outstanding at end of year	1,654	25.57 / 23.63	1,488	26.41 / 24.60
Unit rights exercisable at year end	839	26.51 / 23.57	559	25.51 / 22.66

The following tables summarize information about unit rights outstanding and exercisable at December 31, 2008:

At the initial grant price:

	Unit Rights Outstanding			Unit Rights Exercisable	
Range of Exercise Prices ($/unit right)	Number Outstanding (thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price ($/unit right)	Number Exercisable (thousands)	Weighted Average Exercise Price ($/unit right)
13.00–19.25	118	0.9 years	17.07	93	17.82
21.10–25.06	686	3.0 years	22.81	247	23.21
26.00–27.40	358	2.8 years	26.68	158	27.22
27.91–33.05	492	2.0 years	30.65	341	30.96
	1,654		25.57	839	26.51

At the modified price:

	Unit Rights Outstanding			Unit Rights Exercisable	
Range of Exercise Prices ($/unit right)	Number Outstanding (thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price ($/unit right)	Number Exercisable (thousands)	Weighted Average Exercise Price ($/unit right)
12.94–14.72	118	0.9 years	13.39	93	13.17
18.03–23.11	686	3.0 years	21.42	247	20.59
23.65–25.78	358	2.8 years	24.96	158	24.13
26.63–30.97	492	2.0 years	28.22	341	28.31
	1,654		23.63	839	23.57

Unit-Based Compensation

The weighted average assumptions used for unit rights granted in 2008 include a volatility factor of expected market price of 26.9 percent, a risk-free interest rate of 3.2 percent, a dividend yield of 9.7 percent and an expected life of the unit rights of four years. These unit rights, together with the continued vesting of unit rights granted in prior years, resulted in unit-based compensation expense in 2008 of $1.19 million (2007 – $1.71 million).

Compensation expense associated with unit rights granted under the Plan is recognized in earnings over the vesting period of the Plan with a corresponding increase in contributed surplus. The exercise of trust unit rights is recorded as an increase in trust units with a corresponding reduction in contributed surplus. Forfeiture of rights are recorded as a reduction in expenses in the period in which they occur.

The following table summarizes information about the Trust's contributed surplus account:

Contributed Surplus

($ thousands)	
Balance, December 31, 2006	2,475
Unit-based compensation expense	1,705
Unit-based compensation recognized on exercise of unit rights	(466)
Balance, December 31, 2007	**3,714**
Unit-based compensation expense [1]	**1,149**
Unit-based compensation recognized on exercise of unit rights	**(246)**
Balance, December 31, 2008	**4,617**

(1) During the fourth quarter of 2008, the Trust issued 10,000 unit appreciation rights ("UARS") with an intrinsic value of $0.04 million at December 31, 2008. These UARS are awards entitling the recipients to receive cash in an amount equivalent to any excess of the market value of a stated number of units over a stated price. UARS are included in unit-based compensation expense; however rewards settled in cash are liabilities and therefore are not included in contributed surplus.

Trust Unit Redemption

Under the terms of the Trust Indenture, unitholders may require the Trust to redeem all or any part of the trust units at a price and under certain terms and conditions as specified in the Trust Indenture. The redemption price per trust unit will be equal to the lesser of: (i) 90 percent of the "market price" of the trust units on the principal market on which the trust units are quoted for trading during the 10 trading day period commencing immediately after the date on which the trust units are tendered to Zargon for redemption; and (ii) the closing market price on the principal market on which the trust units are quoted for trading on the date that the trust units are so tendered for redemption. Trust units tendered for redemption in any calendar month shall be paid on the last day of the third following month by, at the Trust's option: (i) a cash payment; or (ii) a distribution of notes and/or redemption notes. It is anticipated that this redemption right will not be the primary mechanism for holders of trust units to dispose of their trust units. Notes or redemption notes which may be distributed in specie to unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop for such notes or redemption notes. Notes or redemption notes may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans. To date, no trust units have been tendered for redemption.

9. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

Zargon Oil & Gas Ltd. is authorized to issue an unlimited number of exchangeable shares. The exchangeable shares are convertible into trust units at the option of the shareholder, based on the exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on the exchangeable shares. During the year, a total of 0.21 million (2007 – 0.14 million) exchangeable shares were converted into 0.29 million (2007 – 0.17 million) trust units based on the exchange ratio at the time of conversion. At December 31, 2008, the exchange ratio was 1.43643 (December 31, 2007 – 1.29611) trust units per exchangeable share. As set out in the Arrangement, the exchangeable shares are entitled to vote equally to the number of trust units for which each exchangeable share is convertible into a trust unit on the record date. The Board of Directors of Zargon Oil & Gas Ltd. hold the option to redeem all outstanding exchangeable shares for trust units on or before July 15, 2014. At such time, should the Board of Directors not extend the term of the exchangeable shares, there would be no remaining non-controlling interest.

Pursuant to EIC-151 "Exchangeable Securities Issued by a Subsidiary of an Income Trust", if certain conditions are met, the exchangeable shares issued by a subsidiary must be reflected as non-controlling interest on the consolidated balance sheets and in turn, net earnings must be reduced by the amount of net earnings attributed to the non-controlling interest.

The non-controlling interest on the consolidated balance sheets consists of the book value of exchangeable shares at the time of the Plan of Arrangement, plus net earnings attributable to the exchangeable shareholders, less exchangeable shares (and related cumulative earnings) redeemed. The net earnings attributable to the non-controlling interest on the consolidated statements of earnings and comprehensive income represents the cumulative share of net earnings attributable to the non-controlling interest based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable each year end.

Non-Controlling Interest – Exchangeable Shares

	December 31, 2008		December 31, 2007	
(thousands, except exchange ratio)	**Number of Shares**	**Amount ($)**	Number of Shares	Amount ($)
Balance, beginning of year	**2,071**	**20,730**	2,207	18,319
Exchanged for trust units at book value and including earnings attributed during the period	**(209)**	**(3,220)**	(136)	(1,394)
Earnings attributable to non-controlling interest	**-**	**10,100**	-	3,805
Balance, end of year	**1,862**	**27,610**	2,071	20,730
Exchange ratio, end of period	**1.43643**		1.29611	
Trust units issuable upon conversion of exchangeable shares, end of year	**2,675**		2,684	

The proforma total units outstanding at December 31, 2008, including trust units outstanding, and trust units issuable upon conversion of exchangeable shares and after giving rise to the exchange ratio at the end of the year, is 21.15 million units (2007 – 19.76 million units).

The effect of EIC-151 on Zargon's unitholders' capital and exchangeable shares is as follows:

($ thousands)	Zargon Energy Trust Units	Zargon Oil & Gas Ltd. Exchangeable Shares	Total
Balance at December 31, 2006	82,868	18,319	101,187
Issued on redemption of exchangeable shares at book value	330	(330)	-
Effect of EIC-151	3,897	2,741	6,638
Unit-based compensation recognized on exercise of unit rights	466	-	466
Unit rights exercised for cash	2,127	-	2,127
Balance at December 31, 2007	**89,688**	**20,730**	**110,418**
Issued on redemption of exchangeable shares at book value	**508**	**(508)**	-
Effect of EIC-151	**5,132**	**7,388**	**12,520**
Unit-based compensation recognized on exercise of unit rights	**246**	-	**246**
Issued on corporate and property acquisitions	**23,910**	-	**23,910**
Unit rights exercised for cash	**1,166**	-	**1,166**
Balance at December 31, 2008	**120,650**	**27,610**	**148,260**

EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts" states that exchangeable securities issued by a subsidiary of an Income Trust should be reflected as either a non-controlling interest or debt on the consolidated balance sheets unless they meet certain criteria. The exchangeable shares issued by Zargon Oil & Gas Ltd., a corporate subsidiary of the Trust, are publicly traded and have an expiry term, which could be extended at the option of the Board of Directors. Therefore, these securities are considered, by EIC-151, to be transferable to third parties and to have an indefinite life. EIC-151 states that if these criteria are met, the exchangeable shares should be reflected as a non-controlling interest.

As a result of EIC-151, the Trust has increased its unitholders' equity and non-controlling interest for 2008 by $12.52 million (2007 – $6.64 million) on the Trust's consolidated balance sheets. Consolidated net earnings for 2008 have been reduced for net earnings attributable to the non-controlling interest by $10.10 million (2007 – $3.81 million). In accordance with EIC-151 and given the circumstances in Zargon's case, each redemption is accounted for as a step-purchase, which for 2008 additionally resulted in an increase in property and equipment of $3.39 million (2007 – $8.82 million), and an increase in future income tax liability of $0.97 million (2007 – $5.99 million). Funds flow from operating activities were not impacted by this change.

The cumulative impact to date of the application of EIC-151 has been to increase gross property and equipment by $55.15 million (for depletion impact see note 5), unitholders' equity and non-controlling interest by $65.87 million, future income tax liability by $18.19 million and an allocation of net earnings to exchangeable shareholders of $28.91 million.

10. WEIGHTED AVERAGE NUMBER OF TOTAL UNITS

(thousands of units)	**2008**	2007
Basic	**18,021**	16,975
Diluted	**20,632**	19,551

Dilution amounts of 2.61 million units (2007 – 2.58 million) were added to the weighted average number of units outstanding during the year in the calculation of diluted per unit amounts. These unit additions represent the dilutive effect of unit rights according to the treasury stock method and also include exchangeable shares using the "if-converted" method. Due to the fact that at the time of exercise, the rights holder has the option of exercising at the original grant price or a modified price as calculated under the Plan, the prices used in the treasury stock calculation are the lower prices calculated under the Plan. An adjustment to the numerator amount was required in the diluted calculation to provide for the earnings of $10.10 million (2007 – $3.81 million) attributable to the non-controlling interest pertaining to the exchangeable shareholders.

11. CAPITAL DISLOSURES

The Trust's capital structure is comprised of unitholders' equity plus long term debt. The Trust's objectives when managing its capital structure are to:

i) maintain financial flexibility so as to preserve Zargon's access to capital markets and its ability to meet its financial obligations; and

ii) finance internally generated growth as well as acquisitions.

The Trust monitors its capital structure and short term financing requirements using the non-GAAP financial metric of debt net of working capital ("net debt") to funds flow from operating activities. Net debt, as used by the Trust, is calculated as bank debt and any working capital deficit excluding the current portion of unrealized risk management assets and liabilities and future income taxes. Funds flow from operating activities represents net earnings/losses and asset retirement expenditures except for non-cash items. The metric is used to steward the Trust's overall debt position as a measure of the Trust's overall financial strength and is calculated as follows:

($ thousands, except ratio)	**December 31, 2008**	December 31, 2007
Net debt	**87,707**	63,756
Funds flow from operating activities	**106,909**	79,838
Net debt to funds flow from operating activities ratio	**0.8**	0.8

Zargon's net debt to funds flow from operating activities ratio was 0.8, unchanged from the 0.8 at December 31, 2007, primarily due to the strong funds flow from operating activities being offset by cash consideration and net debt assumed related to the acquisitions of Rival and Newpact.

To manage its capital structure, the Trust may adjust capital spending, adjust distributions paid to unitholders, issue new units, issue new debt or repay existing debt.

The Trust's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented. Zargon is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTRACTS

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by CICA Section 3855.

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in fair value recognized in earnings. Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income ("OCI") until the asset is removed from the consolidated balance sheets. Financial assets classified as "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

Fair Value of Financial Assets and Liabilities

Zargon's financial assets and liabilities are comprised of accounts receivable, deposits, accounts payable, cash distributions payable, unrealized risk management assets and liabilities and long term debt. Fair values of financial assets and liabilities, summarized information related to risk management positions and discussion of risks associated with financial assets and liabilities are presented as follows:

A) Fair Value of Financial Assets and Liabilities

Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, cash distributions payable and long term debt are designated as "other liabilities". The fair values of these accounts approximate their carrying amounts.

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading". These accounts are recorded at their estimated fair value based on the current mark-to-market method of accounting, using quoted market prices.

B) Risk Management Assets and Liabilities

The Trust is a party to certain financial instruments that have fixed the price of a portion of its oil and natural gas production and foreign exchange conversion rates. The Trust enters into these contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of oil and natural gas commodity prices and foreign exchange rates. For financial risk management contracts, the Trust considers these contracts to be effective on an economic basis but has decided not to designate these contracts as hedges for accounting purposes and accordingly, any unrealized gains or losses are recorded based on the fair value (mark-to-market) of the contracts at year end. The unrealized gain on the statement of earnings for 2008 was $44.38 million and the unrealized loss for 2007 was $16.80 million. As at December 31, 2008, the Trust had the following outstanding commodity and foreign currency risk management contracts:

Commodity Financial Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Gain ($ thousands)
Oil swaps	500 bbl/d	$72.74 US/bbl	Jan. 1/09 – Mar. 31/09	1,321
	500 bbl/d	$87.58 US/bbl	Jan. 1/09 – Jun. 30/09	4,039
	300 bbl/d	$107.40 US/bbl	Jan. 1/09 – Sep. 30/09	5,462
	500 bbl/d	$114.97 US/bbl	Apr. 1/09 – Dec. 31/09	9,873
	500 bbl/d	$85.30 US/bbl	Jul. 1/09 – Dec. 31/09	3,103
	300 bbl/d	$132.98 US/bbl	Oct. 1/09 – Jun. 30/10	7,157
Natural gas swaps	4,000 gj/d	$9.71/gj	Jan. 1/09 – Mar. 31/09	1,396
	2,000 gj/d	$9.60/gj	Apr. 1/09 – Oct. 31/09	1,471
Total Fair Market Value, Commodity Price Financial Contracts				**33,822**

Oil swaps are settled against the NYMEX WTI pricing index, whereas natural gas swaps are settled against the AECO pricing index.

Foreign Exchange Financial Risk Management Contracts:

	Average Monthly US Dollar Volume	Foreign Exchange Rate ($Cdn/$US)	Range of Terms	Fair Market Value Gain/(Loss) ($ thousands)
Foreign exchange forwards	$1,517,000	1.1760	Jan. 1/09 – Dec. 31/09	(724)
	$1,213,000	1.2550	Jan. 1/09 – Dec. 31/09	564
	$1,203,000	1.1715	Jan. 1/10 – Jun. 30/10	(281)
Total Fair Market Value, Foreign Exchange Financial Contracts				**(441)**

The contracts are settled based on the average daily noon close rate for US dollars converted to Canadian dollars as published by the Bank of Canada.

Physical Risk Management Contracts:

	Rate	Weighted Average Price	Range of Terms	Fair Market Value Gain ($ thousands)
Natural gas fixed price	5,000 gj/d	$8.99/gj	Jan. 1/09 – Mar. 31/09	1,307
	3,000 gj/d	$8.47/gj	Apr. 1/09 – Oct. 31/09	1,481
Total Fair Market Value, Physical Contracts				**2,788**

Contracts settled by way of physical delivery are recognized as part of the normal revenue stream. These instruments have no book values recorded in the consolidated financial statements.

Commodity Price Sensitivities

The following table summarizes the sensitivity of the fair value of the Trust's risk management positions to fluctuations in commodity prices, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Trust believes 10 percent volatility is a reasonable long term measure.

Fluctuations in commodity prices could have resulted in unrealized gains/(losses) on risk management contracts impacting net earnings as follows:

	Year Ended December 31, 2008	
($ thousands)	10% Increase	10% Decrease
Natural gas price	**(474)**	**474**
Crude oil price	**(3,584)**	**3,584**

C) Risks Associated with Financial Assets and Liabilities

The Trust is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk (commodity prices, interest rates and foreign exchange rates) credit risk and liquidity risk.

• Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, is comprised of the following:

- Commodity Price Risk

As a means of mitigating exposure to commodity price risk volatility, the Trust has entered into various derivative agreements. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors. The Trust's policy is to not use derivative financial instruments for speculative purposes.

Natural Gas – To partially mitigate the natural gas commodity price risk, the Trust enters into swaps, which fix the Canadian dollar AECO prices.

Crude Oil – The Trust has partially mitigated its exposure to the WTI NYMEX price with fixed price swaps.

- Interest Rate Risk

Borrowings under bank credit facilities are market rate based (variable interest rates); thus, carrying values approximate fair values.

At December 31, 2008, and at existing debt pricing levels, the increase or decrease in net earnings for each one percent change in interest rates would amount to $0.83 million for the year ended December 31, 2008.

- Foreign Exchange Risk

As Zargon operates in North America, fluctuations in the exchange rate between the US/Canadian dollar can have a significant effect on the Trust's reported results. A $0.01 change in the US to Canadian dollar exchange rate would have resulted in a $1.16 million increase or decrease in net earnings for the year ended December 31, 2008. In order to mitigate the Trust's exposure to foreign exchange fluctuations, the Trust entered into foreign exchange derivative agreements in the fourth quarter of 2008.

• Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Trust incurring a financial loss. This credit exposure is mitigated with credit practices that limit transactions according to counterparties' credit quality. A substantial portion of the Trust's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

The maximum credit risk exposure associated with accounts receivable, accrued revenues and risk management assets is the total carrying value. The Trust monitors these balances monthly to limit the risk associated with collection. Of Zargon's accounts receivable at December 31, 2008, approximately 37 percent was owing from two companies and Zargon anticipates full collection.

• Liquidity Risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial liability obligations. The Trust manages its liquidity risk through cash and debt management. See note 11 for a more detailed discussion.

As at December 31, 2008, Zargon had available unused committed bank credit facilities of approximately $101.90 million. The Trust believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

($ thousands)	1 year	2–3 years	Total
Accounts payable and accrued liabilities	28,687	-	28,687
Cash distributions payable	3,326	-	3,326
Risk management liabilities [1]	724	281	1,005
Long term debt [2]	-	77,581	77,581

(1) See the section titled "Foreign Exchange Risk" in this note for a better understanding of the volatility around these amounts.

(2) See note 6 for the details on the credit facilities.

13. INCOME TAXES

The Trust is a taxable entity under the Income Tax Act (Canada) and, until 2011, is taxable only on income that is not distributed or distributable to the unitholders. As the Trust allocates all of its Canadian taxable income to the unitholders in accordance with the Trust Indenture, and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no current tax provision for Canadian income tax expense has been incurred by the Trust. Withholding taxes, provincial capital taxes and US income taxes are provided for under current income tax expense.

In the Trust's structure, payments are made between the Company and the Trust that result in the transferring of taxable income from the Company to individual unitholders. These payments may reduce future income tax liabilities previously recorded by the Company that would be recognized as a recovery of income tax in the period incurred.

On October 31, 2006, the Federal Government announced tax proposals pertaining to taxation of distributions paid by trusts and the personal tax treatment of trust distributions. Currently, the Trust does not pay tax on distributions as tax is paid by the unitholders. On June 12, 2007, the Federal Government enacted these tax proposals, which will result in taxation of distributions at the Trust level at a rate of 31.5 percent effective January 1, 2011. Subsequent 2007 fourth quarter legislation has lowered this tax rate to 29.5 percent in 2011 and 28.0 percent beyond 2011 to assimilate recent corporate tax rate changes. Prior to June 2007, the Trust

estimated the future income tax on certain temporary differences between amounts recorded on its consolidated balance sheets for book and tax purposes to have a nil effective tax rate. Under the legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be approximately 28.0 percent. Until 2011, Zargon's future tax obligations are reduced as distributions are made from the Trust and, consequently, it is anticipated that Zargon's effective tax rate will continue to be low until that time.

Based on its assets and liabilities as at June 30, 2007, the quarter in which the tax proposals were substantively enacted, the Trust had estimated the amount of its temporary differences, which were previously not subject to tax and had estimated the periods in which these differences will reverse. The Trust estimated that $7.05 million of net tax deductible temporary differences will reverse after January 1, 2011, which resulted in a reduction of the future tax liability of $2.22 million in the 2007 second quarter. The taxable temporary differences relate principally to the remaining tax pools attributed to the oil and gas properties being greater than their net book value. The year-over-year increase in the future tax recovery reflects these legislated adjustments.

On February 26, 2008, the Federal Government, in its Federal Budget, announced changes to the Specified Investment Flow-Through ("SIFT") tax rules. The provincial component of the SIFT tax will be based on the provincial rates where the SIFT has a permanent establishment rather than using a 13.0 percent flat rate. For Zargon, the SIFT tax rate applicable in 2012 is expected to fall from 28.0 percent to 25.0 percent. As the tax rate change has not been substantively enacted, no future income tax rate benefit has been recorded in the financial statements.

The amount and timing of reversals of temporary differences will also depend on the Trust's future operating results, acquisitions and dispositions of assets and liabilities, and distributions. A significant change in any of the preceding assumptions could materially affect management's estimate of the future tax liability.

Income taxes differ from the amounts which would be obtained by applying the statutory income tax rates to earnings before income taxes as follows:

($ thousands)	**2008**	2007
Statutory income tax rates	**30.08%**	33.03%
Expected income taxes	**28,632**	4,964
Add (deduct) income tax effect of:		
Rate adjustments	**(1,225)**	(5,775)
Impact of changes in tax rates relating to income trusts after 2010	**-**	(2,220)
Cash distributions	**(11,757)**	(12,120)
Capital taxes and withholding taxes	**969**	2,143
Other	**183**	(319)
	16,802	(13,327)

The 2008 and 2007 years include recoveries relating to reductions in future federal and provincial income tax rates substantively enacted during the respective years.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The components of Zargon's net future income tax liability are as follows:

($ thousands)	2008	2007
Net book value of property and equipment in excess of tax pools	**49,829**	43,469
Deferred partnership earnings	**7,494**	4,762
Asset retirement obligations	**(7,525)**	(7,051)
Current unrealized risk management (asset)/liability	**8,553**	(2,919)
Long-term unrealized risk management (asset)/liability	**1,321**	(714)
Non-capital losses	**(1,046)**	-
Share issue costs	**(31)**	(57)
Other	**(338)**	(232)
	58,257	37,258

As at December 31, 2008, Zargon's estimated tax pools are as follows:

($ thousands)	December 31, 2008	December 31, 2007
Canadian oil and gas property expenses in the Trust	**33,992**	37,772
Canadian oil and gas property expenses in other entities	**29,846**	7,821
Canadian development expenses	**36,224**	27,224
Canadian exploration expenses	**39,332**	45,125
Capital cost allowance	**51,218**	40,441
US tax pools	**3,185**	4,440
Partnership deferral	**(8,312)**	(15,815)
Other	**2,474**	1,248
	187,959	148,256

14. COMMITMENTS

The Trust is committed to future minimum payments for natural gas transportation sales commitments in addition to operating leases for office space, office equipment, vehicles and field equipment. Payments required under these commitments for each of the next five years are: 2009 – $2.19 million; 2010 – $1.73 million; 2011 – $1.31 million; 2012 – $0.76 million; 2013 – $nil; thereafter – $nil.

15. CONTINGENCIES AND GUARANTEES

In the normal course of operations, Zargon executes agreements that provide for indemnification and guarantees to counterparties in transactions such as the sale of assets and operating leases.

These indemnifications and guarantees may require compensation to counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, loss of or damages to property, environmental liabilities or as a result of litigation that may be suffered by counterparties.

Certain indemnifications can extend for an unlimited period and generally do not provide for any limit on the maximum potential amount. The nature of substantially all of the indemnifications prevents the Trust from making a reasonable estimate of the maximum potential amount that might be required to pay counterparties as the agreements do not specify a maximum amount, and the amounts depend on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

The Trust indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their services to the Trust to the extent permitted by law. The Trust has acquired and maintains liability insurance for its directors and officers. The Trust is party to various legal claims associated with the ordinary conduct of business. The Trust does not anticipate that these claims will have a material impact on its financial position.

16. CHANGES IN NON-CASH WORKING CAPITAL

	Year Ended December 31,	
($ thousands)	**2008**	2007
Changes in non-cash working capital items:		
Accounts receivable	**943**	(3,306)
Prepaid expenses and deposits	**528**	136
Accounts payable and accrued liabilities	**1,515**	(1,238)
Cash distributions payable	**252**	52
Working capital acquired from corporate acquisitions	**(3,345)**	-
Foreign exchange and other	**3,035**	(1,076)
	2,928	(5,432)
Changes relating to operating activities	**3,215**	(3,535)
Changes relating to financing activities	**252**	52
Changes relating to investing activities	**(539)**	(1,949)
	2,928	(5,432)

17. SUPPLEMENTAL CASH FLOW INFORMATION

($ thousands)	**2008**	2007
Cash interest paid	**4,121**	3,259
Cash taxes paid	**4,973**	2,972

18. SEGMENTED INFORMATION

Zargon's entire operating activities are related to exploration, development and production of oil and natural gas in the geographic regions of Canada and the US.

		2008	
($ thousands)	**Canada**	**United States**	**Combined**
Petroleum and natural gas revenue	**202,146**	**27,348**	**229,494**
Earnings before income taxes	**82,647**	**12,540**	**95,187**
Property and equipment, net	**353,174**	**33,572**	**386,746**
Total assets	**428,968**	**18,632**	**447,600**
Goodwill	**2,969**	**-**	**2,969**
Net capital expenditures	**57,744**	**980**	**58,724**

		2007	
($ thousands)	Canada	United States	Combined
Petroleum and natural gas revenue	133,473	22,039	155,512
Earnings before income taxes	5,703	9,327	15,030
Property and equipment, net	278,444	35,505	313,949
Total assets	304,562	38,551	343,113
Goodwill	-	-	-
Net capital expenditures	63,591	3,078	66,669

19. CASH DISTRIBUTIONS

During the year, the Trust declared distributions to the unitholders in the aggregate amount of $39.09 million (2007 – $36.70 million) in accordance with the following schedule:

2008 Distributions	Record Date	Distribution Date	Per Trust Unit
January	January 31, 2008	February 15, 2008	$0.18
February	February 29, 2008	March 17, 2008	$0.18
March	March 31, 2008	April 15, 2008	$0.18
April	April 30, 2008	May 15, 2008	$0.18
May	May 31, 2008	June 16, 2008	$0.18
June	June 30, 2008	July 15, 2008	$0.18
July	July 31, 2008	August 15, 2008	$0.18
August	August 31, 2008	September 15, 2008	$0.18
September	September 30, 2008	October 15, 2008	$0.18
October	October 31, 2008	November 17, 2008	$0.18
November	November 30, 2008	December 15, 2008	$0.18
December	December 31, 2008	January 15, 2009	$0.18

2007 Distributions	Record Date	Distribution Date	Per Trust Unit
January	January 31, 2007	February 15, 2007	$0.18
February	February 28, 2007	March 15, 2007	$0.18
March	March 31, 2007	April 16, 2007	$0.18
April	April 30, 2007	May 15, 2007	$0.18
May	May 31, 2007	June 15, 2007	$0.18
June	June 30, 2007	July 16, 2007	$0.18
July	July 31, 2007	August 15, 2007	$0.18
August	August 31, 2007	September 17, 2007	$0.18
September	September 30, 2007	October 15, 2007	$0.18
October	October 31, 2007	November 15, 2007	$0.18
November	November 30, 2007	December 17, 2007	$0.18
December	December 31, 2007	January 15, 2008	$0.18

20. RELATED PARTY TRANSACTIONS

Zargon paid $0.05 million (2007 – $0.05 million) for vehicle leases to a company owned by a Board member and $0.23 million (2007 – $0.07 million) for legal services to a law firm of which a Board member is a partner. These payments were in the normal course of operations, were made on commercial terms, and therefore were recorded at their exchange amounts.

21. SUBSEQUENT EVENTS

On February 27, 2009, Zargon entered into an Arrangement Agreement pursuant to which Zargon has agreed to make an offer to acquire all the issued and outstanding common shares of Masters Energy Inc. ("Masters") and assume approximately $13.20 million of net debt (including transaction costs) subject to a number of conditions. Pursuant to the Arrangement Agreement, Masters shareholders will have the option of receiving 0.120 Zargon trust units, up to a maximum of 1.49 million trust units, or $1.83 for each Masters common share, up to an aggregate maximum of $5.70 million in cash.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Craig H. Hansen
Calgary, Alberta

K. James Harrison [3] [4]
Chairman of the Board
Oakville, Ontario

Kyle D. Kitagawa [1] [2]
Calgary, Alberta

Margaret A. McKenzie [1] [3]
Calgary, Alberta

Jim Peplinski [2] [4]
Calgary, Alberta

J. Graham Weir [1] [2]
Calgary, Alberta

Grant A. Zawalsky [3] [4]
Calgary, Alberta

OFFICERS

Craig H. Hansen
President and Chief Executive Officer

Brent C. Heagy
Executive Vice President and Chief Financial Officer

Daniel A. Roulston
Executive Vice President, Engineering

Henry J. Baird
Vice President, Exploitation

Jason B. Dranchuk
Controller and Treasurer

Tracy L. Howard
Corporate Secretary

Brian G. Kergan
Vice President, Corporate Development and Reserves

Mark I. Lake
Vice President, Exploration

Lorne D. Schwetz
Vice President, Land

(1) Audit Committee
(2) Reserves Committee
(3) Governance and Nominating Committee
(4) Compensation Committee

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Zargon Energy Trust
Trust Units
Trading Symbol: ZAR.UN

Zargon Oil & Gas Ltd.
Exchangeable Shares
Trading Symbol: ZOG.B

TRANSFER AGENT

Valiant Trust Company
310, 606 – 4th Street S.W.
Calgary, Alberta T2P 1T1

BANKERS

The Toronto Dominion Bank
910, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Canadian Imperial Bank of Commerce
9th Floor, Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 2P2

The Bank of Nova Scotia
2000, 700 – 2nd Street S.W.
Calgary, Alberta T2P 2N7

LEGAL COUNSEL

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Calgary, Alberta T2P 3N9

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
2220, 255 – 5th Avenue S.W.
Calgary, Alberta T2P 3G6

AUDITORS

Ernst & Young LLP
1000, 440 – 2nd Avenue S.W.
Calgary, Alberta T2P 5E9

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Email: zargon@zargon.ca

WEBSITE

www.zargon.com

ABBREVIATIONS

bbl	Barrel
bbl/d	Barrels per day
bcf	Billion cubic feet
boe	Barrels of oil equivalent (6 mcf is equivalent to 1 bbl)
boe/d	Barrels of oil equivalent per day
btu	British thermal units
F&D	Finding and development
FD&A	Finding, development and acquisition
gj	Gigajoule
gj/d	Gigajoules per day
m	Thousand
mm	Million
mmbtu	Million British thermal units
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
PV	Present value
PVBT	Present value before tax

ANNUAL MEETING

The Annual and Special meeting of the Unitholders of Zargon Energy Trust will be held on Wednesday, April 22, 2009, at 3:00 pm (Calgary time) in the Strand/Tivoli Room of the Metropolitan Conference Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

ZARGON
ENERGY TRUST

www.zargon.ca